

**HIGH PLAINS UNDERGROUND WATER  
CONSERVATION DISTRICT NO. 1**

**INDEPENDENT AUDITOR'S REPORT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

**Board of Directors:**

Lynn Tate, President  
James Powell, Vice-President  
Mike Beauchamp, Secretary-Treasurer  
Ronnie Hopper  
Brad Heffington

# HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1

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**Independent Auditor's Report**

December 18, 2014

Board of Directors  
High Plains Underground Water Conservation District No. 1  
Lubbock, Texas

We have audited the accompanying financial statements of the governmental activities and the major fund of High Plains Underground Water Conservation District No. 1 (the District) as of and for the nine months ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 governmental activities and the major fund of the District as of September 30, 2014, and the respective changes in financial position for the nine months then ended in conformity with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report (Continued)

### Other Matters

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 through 6 and 22, 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.

*Davis, Ray & Co.*

Davis, Ray & Co., PC  
Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of High Plains Water Underground Water Conservation District No.1's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended September 30, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$5,897,511 at September 30, 2014.
- During the year, the District's expenses were \$1,633,589 more than the \$553,858 generated in taxes, charges for services, grants and contributions, interest and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$5,219,047.
- The District changed from a December 31<sup>st</sup> calendar year-end to a September 30<sup>th</sup> fiscal year-end in the current year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status. The government-wide statements report information using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- The remaining statements are *fund financial statements* that tell how *general government* services were financed in the *short term* as well as what remains for future spending. The District has only governmental funds. All of the District's basic services are included in the general fund, which focuses on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide reconciliations to the government-wide statements that explain the relationship (or differences) between the two perspectives.

### NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position.** The District's combined net position was \$5,897,511 at September 30, 2014. (See Table A-1).

**Table A-1**  
HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO.1'S NET POSITION

	Governmental Activities 2014	Governmental Activities 2013	% Change
<b>Current assets:</b>			
Cash and cash equivalents	\$ 281,502	\$ 789,918	-64.36%
Certificates of deposit	5,072,511	4,632,088	9.51%
Receivables (net)	89,991	1,839,998	-95.11%
Prepaid expenses	16,512	11,696	41.18%
<b>Total current assets</b>	<b>5,460,516</b>	<b>7,273,700</b>	<b>-24.93%</b>
<b>Noncurrent assets:</b>			
Property, plant and equipment, net	725,752	661,743	9.67%
<b>Total Assets</b>	<b>6,186,268</b>	<b>7,935,443</b>	<b>-22.04%</b>
<b>Current liabilities:</b>			
Accounts payable	53,833	6,846	686.34%
Accounts payable-grants	113,332	-	100.00%
Payroll tax payable	10,484	-	100.00%
Permit deposits	-	189,250	-100.00%
Unearned revenues	-	93,196	-100.00%
Accrued vacation/sick leave	111,108	115,051	-3.43%
<b>Total current liabilities</b>	<b>288,757</b>	<b>404,343</b>	<b>-28.59%</b>
<b>Total Liabilities</b>	<b>288,757</b>	<b>404,343</b>	<b>-28.59%</b>
<b>Net position:</b>			
Invested in capital assets	725,752	661,743	9.67%
Unrestricted	5,171,759	6,869,357	-24.71%
<b>Total Net Position</b>	<b>\$ 5,897,511</b>	<b>\$ 7,531,100</b>	<b>-21.69%</b>

The \$5,171,759 of unrestricted net position represents resources available to fund the programs of the District next year.

**Changes in net position.** The District's total revenues were \$553,858. The major sources of revenue are charges for services - 62 percent and operating grants and contributions – 31 percent. Property taxes, interest income and miscellaneous income comprise the final 7 percent of revenue. Property tax revenues decreased due to the change in fiscal year-end.

**Table A-2****CHANGES IN HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO.1'S NET POSITION**

	Governmental Activities 2014	Governmental Activities 2013	% Change
Program Revenues:			
Charges for services	\$ 342,484	\$ 214,560	59.62%
Grants and contributions	170,170	154,539	10.11%
General Revenues:			
Property taxes	17,954	2,731,211	-99.34%
Interest income	12,919	18,617	-30.61%
Miscellaneous income	17,689	11,330	56.13%
Gain (loss) on disposal of assets	(7,358)	15,066	-148.84%
Total Revenues	<u>553,858</u>	<u>3,145,323</u>	<u>-82.39%</u>
Expenses:			
General administration	2,187,447	2,851,560	-23.29%
Change in Net Position	<u>\$ (1,633,589)</u>	<u>\$ 293,763</u>	<u>656.09%</u>

**General Fund Budgetary Highlights**

The District did amend its original budget to account for increases or decreases in general administration expenditure line items; however, the overall expenditure budget remained unchanged.

**CAPITAL ASSETS AND DEBT ADMINISTRATION****Capital Assets**

At the end of 2014, the District had invested \$725,752, net of accumulated depreciation, in capital assets; (see Table A-3). This represents a net increase (including additions and deductions) of \$64,009 or 10 percent over last year.

**Table A-3****HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO.1'S CAPITAL ASSETS**

	2014	2013
Land	\$ 180,119	\$ 180,119
Buildings & improvements	488,680	474,486
Office equipment	136,503	132,521
Furnishings	42,643	38,154
Field equipment	134,008	122,185
Vehicles	320,910	326,993
Total at historical cost	<u>1,302,863</u>	<u>1,274,458</u>
Total accumulated depreciation	(577,111)	(612,715)
Net capital assets	<u>\$ 725,752</u>	<u>\$ 661,743</u>

## **DEBT ADMINISTRATION**

At year end, the District had no long-term or short-term debt from borrowed funds.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

- Appraised, taxable values have increased \$1,058,429,207 over last year.
- The District adopted a tax rate of .008026/100 valuation for the next fiscal year.
- The District has adopted a revenue budget of \$3,616,225 an increase of \$649,655 or 22 percent over last year's budget.
- The District has adopted an expenditure budget of \$3,616,225, an increase of \$649,655 or 22 percent over last year's budget.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, 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 questions about this report or need additional financial information, contact the District's Administration.

## **BASIC FINANCIAL STATEMENTS**

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2014**

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 281,502
Certificates of deposit	5,072,511
Property taxes receivable, net of allowances	63,820
Due from Appraisal Districts	3,188
Accounts receivable-grants	22,983
Prepaid expenses	16,512
Total Current Assets	<u>5,460,516</u>
Noncurrent Assets:	
Property, plant and equipment, net of accumulated depreciation (Note 2)	<u>725,752</u>
Total Noncurrent Assets	<u>725,752</u>
 Total Assets	 <u><u>\$ 6,186,268</u></u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	\$ 53,833
Accounts payable-grants	113,332
Payroll tax payable	10,484
Accrued compensated absences	111,108
Total Liabilities	<u>288,757</u>
 <u>NET POSITION</u>	
Invested in capital assets, net of related debt	725,752
Unrestricted	<u>5,171,759</u>
Total Net Position	<u><u>\$ 5,897,511</u></u>

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

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
Governmental Activities					
General administration	\$ 2,187,447	\$ 342,484	\$ 170,170	\$ -	\$ (1,674,793)
Total Primary Government	<u>\$ 2,187,447</u>	<u>\$ 342,484</u>	<u>\$ 170,170</u>	<u>\$ -</u>	<u>\$ (1,674,793)</u>

General Revenues:

Property taxes	\$ 17,954
Interest income	12,919
Miscellaneous income	17,689
Loss on disposal of assets	<u>(7,358)</u>
Total Revenues	<u>41,204</u>
Changes in Net Position	(1,633,589)
Net Position - Beginning	<u>7,531,100</u>
Net Position - Ending	<u>\$ 5,897,511</u>

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

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**BALANCE SHEET**  
**GOVERNMENTAL FUND**  
**SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 281,502	\$ 281,502
Certificates of deposit	5,072,511	5,072,511
Property taxes receivable, net of allowances	63,820	63,820
Due from Appraisal Districts	3,188	3,188
Accounts receivable-grants	22,983	22,983
Prepaid expenses	16,512	16,512
	<u>5,460,516</u>	<u>5,460,516</u>
<b>Total Assets</b>	<b>\$ 5,460,516</b>	<b>\$ 5,460,516</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
Liabilities:		
Accounts payable	\$ 53,833	\$ 53,833
Accounts payable-grants	113,332	113,332
Payroll tax payable	10,484	10,484
Unearned revenue	63,820	63,820
	<u>241,469</u>	<u>241,469</u>
<b>Total Liabilities</b>	<b>241,469</b>	<b>241,469</b>
Fund Balances:		
Committed for:		
Technical development	400,000	400,000
Restricted for:		
Regional Planning Grants	93,245	93,245
Unassigned	4,725,802	4,725,802
	<u>5,219,047</u>	<u>5,219,047</u>
<b>Total Fund Balances</b>	<b>5,219,047</b>	<b>5,219,047</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,460,516</b>	<b>\$ 5,460,516</b>

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

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
RECONCILIATION OF GOVERNMENTAL  
FUNDS BALANCE SHEET  
SEPTEMBER 30, 2014

**Reconciliation of Governmental Fund Balances to Net Position of  
Governmental Activities:**

Governmental Fund Balances	\$ 5,219,047
Amounts reported in governmental activities and in the statement of net position are different because:	
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds:	725,752
Property taxes receivable unavailable to pay current expenditures are deferred in the funds:	63,820
Payables for compensated absences which are not due in the current period are not reported in the funds:	<u>(111,108)</u>
Net Position of Governmental Activities	<u>\$ 5,897,511</u>

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

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUND**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Total Governmental Funds</u>	
<b><u>REVENUES</u></b>			
Taxes, penalties and interest	\$ 1,230,158	\$ 1,230,158	
Depletion map sales	28,980	28,980	
Investment income	12,919	12,919	
Grants and contracts	170,170	170,170	
Permit deposits-forfeited	313,504	313,504	
Other	19,259	19,259	
	<hr/>	<hr/>	
Total Revenues	1,774,990	1,774,990	
	<hr/>	<hr/>	
<b><u>EXPENDITURES</u></b>			
General administration	2,108,776	2,108,776	
Capital outlay:			
Current expenditures	155,551	155,551	
	<hr/>	<hr/>	
Total Expenditures	2,264,327	2,264,327	
	<hr/>	<hr/>	
Excess (deficiency) of revenues over expenditures	(489,337)	(489,337)	
Fund Balance, December 31, 2013	5,708,384	5,708,384	
	<hr/>	<hr/>	
Fund Balance, September 30, 2014	\$ 5,219,047	\$ 5,219,047	
	<hr/> <hr/>	<hr/> <hr/>	

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

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities:**

Net Changes in Governmental Fund Balances	\$ (489,337)
Amounts reported for governmental activities and in the statement of activities (SOA) are different because:	
The depreciation and loss on disposal of capital assets used in governmental activities is not reported in the funds:	(89,972)
Capital outlays are not reported as expenses in the SOA:	155,551
Proceeds from sale of capital assets are not reported as revenues in the SOA:	(1,570)
Certain property taxes are deferred in the funds. This is the change in these amounts this year:	(1,212,204)
Compensated absences are accrued in the SOA. This is the change in these amounts this year:	<u>3,943</u>
Change in Net Position of Governmental Activities	<u>\$ (1,633,589)</u>

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

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The High Plains Underground Water Conservation District No. 1 (the "District") was formed for the purpose of conserving, preserving, protecting, and recharging the underground water of subdivision No. 1 of the underground water reservoir located under the high plains of Texas. The District was authorized by Article 7880-3c Revised Civil Statutes of the State of Texas (Acts of the 51<sup>st</sup> Legislature, 1949). The District's programs include providing water depletion information to landowners, regulating the spacing of irrigation wells and educating the public concerning water conservation issues. The District's operations are financed primarily from ad valorem taxes. The District operates under a board-manager form of government. There are five elected board member positions. The members of the Board of Directors are elected by the public, have authority to make decisions, appoint administrators and managers, and significantly influence operations and have the primary accountability for fiscal matters. The District is not included in any other governmental reporting entity and has no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred as under accrual accounting.

Grants and entitlements and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

General Fund:

This fund is established to account for resources devoted to financing the general operations of the District. Property tax revenue and other sources of revenue used to finance the fundamental operations of the District are included in this fund. This fund is charged with all costs of operating the government for which a separate fund has not been established.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 31. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. Property taxes are deferred in the fiscal year for which they are levied and are recorded as revenue in the fiscal year in which they are received. Taxes levied and uncollected are carried as an asset of the appropriate fund. An allowance is established for delinquent taxes to the extent that their collectability is improbable.

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A proposed operating budget is prepared for the next succeeding fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to October 1, a meeting is held and the budget is legally adopted by the District's Board of Directors. At least three days public notice of the meeting must be given.
3. Formal budgetary integration is employed as a management control device during the year.
4. Unused appropriations for the annually budgeted funds lapse at the end of the year.
5. The budget amounts shown in the financial statements contain both the original and final budget as amended by the board.

In the current year, the District approved the change to a September 30<sup>th</sup> fiscal year-end. The budget for the current year, as shown on page 22, was amended during the year for increases or decreases in expenditure line items; however, the budget was not amended to reflect the short year.

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits, Securities, and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Water Code. The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. All deposits are categorized as insured or collateralized with securities held by the District or by its agent in the District's name. All deposits were covered by federal depository insurance and pledged securities and were properly secured at all times.

The District's investment policies and types of investment are governed by the Public Funds Investments Act. Investments are reported by the District at cost in accordance with Governmental Accounting Standards Board Statement (GASB) No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investments Pools". The District's management believes that it complied with the requirements of the Public Funds Investments Act.

Analysis of Specific Deposit and Investment Risks

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:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk.

At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

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

At year end, the District was not exposed to custodial credit risk.

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Analysis of Specific Deposit and Investment Risks (Continued)

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment.

At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment.

At year end, the District was not exposed to foreign currency risk.

Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Fund Balances

Fund balances of the governmental fund are classified as follows:

*Nonspendable Fund Balance* – represents amounts that cannot be spent because they are either not in spendable form (such as prepaid items or inventories) or are legally or contractually required to remain intact.

*Restricted Fund Balance* – represents amounts that are constrained either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) by constitutional provisions or enabling legislation.

*Committed Fund Balance* – represents amounts that can only be used for specific purpose pursuant to formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes the specified use by taking the same type of formal action. Commitments are typically done through the adoption and amendment of the budget. The District has currently committed \$400,000 to technical development.

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances (Continued)

*Assigned Fund Balance* – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority.

*Unassigned Fund Balance* – represents all other spendable amounts. These amounts are unconstrained in that they may be spent for any purpose.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those fund balance classifications can be used.

Note 2 CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in the property, plant and equipment for the nine months ended September 30, 2014:

	Balance 12/31/2013	Additions	Retirements	Balance 9/30/2014
Land & Improvements	\$ 180,119	\$ -	\$ -	\$ 180,119
Buildings & Improvements	474,486	14,194	-	488,680
Office Equipment	132,521	32,440	(28,458)	136,503
Furniture & Fixtures	38,154	4,489	-	42,643
Field Equipment	122,185	11,823	-	134,008
Vehicles	326,993	92,605	(98,688)	320,910
<b>Total Fixed Assets</b>	<b>1,274,458</b>	<b>155,551</b>	<b>(127,146)</b>	<b>1,302,863</b>
Less Accumulated Depreciation:				
Land & Improvements	9,898	594	-	10,492
Buildings & Improvements	222,852	11,321	-	234,173
Office Equipment	77,990	15,608	(19,530)	74,068
Furniture & Fixtures	22,281	3,494	-	25,775
Field Equipment	76,367	9,575	-	85,942
Vehicles	203,327	42,022	(98,688)	146,661
<b>Total Accumulated Depreciation</b>	<b>612,715</b>	<b>82,614</b>	<b>(118,218)</b>	<b>577,111</b>
<b>Net Fixed Assets</b>	<b>\$ 661,743</b>	<b>\$ 72,937</b>	<b>\$ (8,928)</b>	<b>\$ 725,752</b>

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

Note 3     RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the nine months ended September 30, 2014, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 4     PENSION PLAN

Plan Description

The District provides a defined benefit plan for all of its full-time employees in the state-wide Texas County and District Retirement System (TCDRS), one of 656 administered by TCERS, an agent multiple-employer public employee retirement system. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code.

The District adopts the 8-year/Age 60/ Rule of 80 Retirement Eligibility/30 years of service any age. Members shall have an 8-year service eligibility requirement for vesting and retirement at age 60. A vested member shall have the right to retire and receive a service retirement annuity when the years of such credited service added to his or hers years of attained age equals or exceeds eighty (80). A member shall have the right to retire and receive a service retirement annuity when the years of such credited service equals or exceeds thirty (30). Service performed by each member for the District on and after the participating date will receive multiple matching credit, which when added to the rate used to determine the current service credit, will total 150% of the member's deposits. Members shall have an optional 8-year service eligibility requirement for vesting at age 60 as approved by the presiding officer of the District.

Contributions

TCERS participation is mandatory for all eligible employees. All participating employees must contribute the same percentage of salary as elected by the governing board. The contribution rate for the employees is 7%. The District's monthly contributions to the System will be at a rate that equals or exceeds the required rate as annually determined by the System actuary. The rate consists of a normal cost contribution rate plus the rate required, as a level percent of payroll, to amortize the unfunded actuarial liability over the plan's 15-year amortization period or to amortize the overfunded actuarial accrued liability over the plan's 30-year amortization period. Both the employees and the District make contributions monthly. Since the District needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2012 valuation is effective for rates beginning January 2014).

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2014

Note 4 PENSION PLAN – CONTINUED

Contributions – Continued

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date		12/31/13
Actuarial Value of Assets	\$	953,597
Actuarial Accrued Liability	\$	1,006,934
Percentage Funded		94.70%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	\$	53,337
Annual Covered Payroll	\$	1,066,534
UAAL as a Percentage of Covered Payroll		5.00%
Net Pension Obligation (NPO) at the Beginning of Period		-
Annual Pension Cost:		
Annual required contribution (ARC)	\$	50,641
Interest on NPO		-
Adjustment to the ARC	-	\$ 50,641
	_____	
Contributions Made	\$	50,641
Increase in NPO		-
NPO at the end of the period	\$	-

The following assumptions were used for the December 31, 2013 valuation:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Closed
Asset Valuation Method	SAF: 5-yr smoothed value ESF: Fund value
Investment Rate of Return	8%
Projected Salary Increases	4.9%
Includes Inflation at	3.0%
Cost-of-living Adjustments	None

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**

Note 4 PENSION PLAN – CONTINUED

Contributions – Continued

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>	<u>Employer's Contribution as a % of Covered Payroll</u>
12/31/2012	70,740	100%	-	7.00%
12/31/2013	75,854	100%	-	7.00%
9/30/2014	50,641	100%	-	7.00%

Note 5 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the potential for claims against the District exists. Management believes that any potential losses from these claims, individually or in the aggregate, would not be material to the District's financial position or results of operations.

Grant Programs – The District participates in State grant programs, which are governed by various rules and regulations of the grantor agencies. Cost charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2014 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 6 GRANTS AND CONTRACTS

During the year, the District entered into the following interlocal cooperation agreement or contract:

- a) The Texas Water Development Board agreed to reimburse the District certain costs of developing a regional water management plan. The District realized revenues of \$113,331 during the year.
- b) Texas Tech University agreed to reimburse the District cost associated with a water conservation demonstration site. The District realized revenues of \$56,839 during the year.

Note 7 HEALTH CARE COVERAGE

The District sponsors a fully insured health insurance plan to provide health care benefits to staff members and their dependents. The District paid premiums of \$684 per month per staff members depending on the type of plan. Staff members, at their option, authorized payroll deductions to pay premium for their dependents. During the year, the District paid 75% of the premiums for employee dependents.

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

Note 8     COMPENSATED ABSENCES

The District allows employees to accumulate unused sick leave to a maximum of 60 days. Sick leave is accrued at the rate of eight hours per month. Unused sick leave accumulated in excess of 60 days is paid to the employees annually. Upon termination, up to 30 days of accumulated sick leave will be paid to the employee.

Earned vacation time is accrued according to the following schedule:

- Less than 10 years of service accrues 8 hours per month with a maximum carryover of 24 days.
- More than 10 years of service accrues 10 hours per month with a maximum carryover of 30 days.

Unused accrued compensated absences as of September 30, 2014 totaled \$111,108.

Note 9     SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 2014, the date the financial statements were available to be issued. No subsequent events were noted.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**HIGH PLAINS UNDERGROUND WATER CONSERVATION DISTRICT NO. 1**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
<b><u>REVENUES</u></b>				
Taxes, penalties and interest	\$ 2,734,920	\$ 2,734,920	\$ 1,230,158	\$ (1,504,762)
Interest income	22,100	22,100	12,919	(9,181)
Depletion info	22,000	22,000	28,980	6,980
Permit deposits	35,000	35,000	313,504	278,504
Grants revenue	137,300	137,300	170,170	32,870
Miscellaneous income	15,250	15,250	19,259	4,009
<b>Total Revenues</b>	<u>2,966,570</u>	<u>2,966,570</u>	<u>1,774,990</u>	<u>(1,191,580)</u>
<b><u>EXPENDITURES</u></b>				
General administration	2,714,570	2,734,570	2,108,776	625,794
Capital outlay:				
Current expenditures	<u>252,000</u>	<u>232,000</u>	<u>155,551</u>	<u>76,449</u>
<b>Total Expenditures</b>	<u>2,966,570</u>	<u>2,966,570</u>	<u>2,264,327</u>	<u>702,243</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(489,337)</u>	<u>(489,337)</u>
<b>Fund Balance, December 31, 2013</b>	<u>5,708,384</u>	<u>5,708,384</u>	<u>5,708,384</u>	<u>-</u>
<b>Fund Balance, September 30, 2014</b>	<u>\$ 5,708,384</u>	<u>\$ 5,708,384</u>	<u>\$ 5,219,047</u>	<u>\$ (489,337)</u>