VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

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ANNUAL FILING AFFIDAVIT

STATE OF TEXAS }

COUNTY OF VICTORIA }

I, D. Mark Meek
(Name of Duly Authorized District Representative)

of the
Victoria County Groundwater Conservation District
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the ________ day of __________________, 2017 its annual audit report for the fiscal period ended September 30, 2016 and that copies of the annual audit report have been filed in the District's office, located at 2805 N. Navarro, Suite 210, Victoria, Texas 77901.

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: May 26, 20 17

By: D. Mark Meek
(Signature of District Representative)

D. Mark Meek, President
(Typed Name & Title of District Representative)

Sworn to and subscribed to before me this 26th day of May, 20 17

DONNA JEAN YANTA
Notary Public, State of Texas
Comm. Expires 03-29-2020
Notary ID 128917742
(Seal)

Donna Jean Yanta
(Signature of Notary)

My Commission Expires On: 3/29/2020
Notary Public in the State of Texas

Goldman, Hunt & Notz, L.L.P.

Certified Public Accountants

DONALD G. GOLDMAN, CPA
D. DALE HUNT, CPA
JAMIE K. NOTZ, CPA, CVA*

*CERTIFIED VALUATION ANALYST

MEMBERS OF:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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STEPHANIE S. KOCH, CPA

*CERTIFIED INFORMATION SYSTEMS AUDITOR

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Victoria County Groundwater Conservation District
Victoria, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Victoria County Groundwater Conservation District, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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.

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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 each major fund, of Victoria County Groundwater Conservation District, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and Texas County and District Retirement System (TCDRS) schedules on pages 4 - 7 and 26 - 30 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.

Goldman, Hunt & Notz, LLP

Goldman, Hunt & Notz, L.L.P.

May 26, 2017

As management of Victoria County Groundwater Conservation District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2016. This discussion and analysis is intended to be an easily readable analysis of the District's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

Report Layout

In addition to the Management's Discussion and Analysis (MD&A), the report consists of basic financial statements, notes to the financial statements, required supplementary information, and Texas Supplementary Information. The basic financial statements are highly condensed and present a government-wide view of the District's finances. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the District. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide basic financial statements.

Basic Financial Statements

- The Statement of Net Position and Balance Sheet - Governmental Funds is the first of two governmental fund and government-wide financial statements which focus on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. The presentation is similar to a private-sector business.
- The second governmental fund and government-wide financial statement is called the Statement of Activities and Revenues, Expenditures, and Changes in Fund Balance/Net Position - Governmental Funds. This statement summarizes the District's revenues and expenditures for the year. Once again, the presentation is similar to a private-sector business.
- The notes to the financial statements provide additional disclosure required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

The discussion and analysis of the District's financial performance provides an overall review of its financial activities for the year ended September 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

- The assets of Victoria County Groundwater Conservation District exceeded its liabilities at the close of the fiscal year ended September 30, 2016 by $2,248,136 (net position). Of this amount, $2,207,802 in unrestricted net position is available to meet the District's ongoing obligations.
- At September 30, 2016, the District's General Fund reported a combined ending fund balance of $2,155,174 of which $1,458 is non-spendable for prepaid expenses, $1,067,938 is committed for legal contingencies, $1,067,938 is committed for groundwater research, and $17,840 is unassigned.
- At September 30, 2016, unassigned fund balance for the General Fund was $17,840 or 4% of total General Fund expenditures.
- The total cost of all District activities was $472,620 for the fiscal year.

Government-wide Overall Financial Analysis

Victoria County Groundwater Conservation District
Components of Net Position
September 30, 2016
With Comparative Totals for September 30, 2015
(in thousands)

	Governmental Activities		Total Government		Amount	%
	2016	2015	2016	2015	Change	Change
Current and other assets	$ 2,240	$ 2,046	$ 2,240	$ 2,046	$ 194	9%
Capital assets	40	26	40	26	14	54%
Total assets	2,280	2,072	2,280	2,072	208	10%
Deferred outflows of resources related to pension expense	18	9	18	9	9	100%
Total deferred outflows of resources	18	9	18	9	9	100%
Total assets and deferred outflows of resources	2,298	2,081	2,298	2,081	217	10%
Current and other liabilities	40	47	40	47	(7)	-15%
Total liabilities	40	47	40	47	(7)	-15%
Deferred inflows of resources	10	-	10	-	10	
Total deferred inflows of resources	10	-	10	-	10	
Net position:						
Net investment in capital assets	40	26	40	26	14	54%
Unrestricted	2,208	2,008	2,208	2,008	200	10%
Total net position	$ 2,248	$ 2,034	$ 2,248	$ 2,034	$ 214	11%

The total net position increased by approximately $214,000. The increase was principally invested in cash and capital assets. Cash and other assets increased by $194,000 and capital assets increased by $14,000.

Government-wide Overall Financial Analysis (Concluded)

Victoria County Groundwater Conservation District
Condensed Statement of Activities
For the Year Ended September 30, 2016
With Comparative Totals for the Year Ended September 30, 2015
(in thousands)

	Governmental Activities		Total Government		Amount	%
	2016	2015	2016	2015	Change	Change
Revenues						
General revenues						
Taxes	$ 642	$ 621	$ 642	$ 621	$ 21	3%
Interest	9	7	9	7	2	29%
Miscellaneous income	28	16	28	16	12	75%
Total revenues	679	644	679	644	35	5%
Expenses						
Personnel	206	194	206	194	12	6%
Professional fees	38	22	38	22	16	73%
Contracted services	100	127	100	127	(27)	-21%
Telecommunications	50	9	50	9	41	456%
Administrative	64	46	64	46	18	39%
Depreciation	14	11	14	11	3	27%
Total expenses	472	409	472	409	63	15%
Excess of revenues over expenditure/expenses before non-operating revenue	207	235	207	235	(28)	-12%
Other financing sources/(uses)	7	8	7	8	(1)	-13%
Change in net position	214	243	214	243	(29)	-12%
Beginning net position, as restated	2,034	-	2,034	-	2,034	
Beginning net position	-	1,791	-	1,791	(1,791)	-100%
Ending net position	$ 2,248	$2,034	$ 2,248	$ 2,034	$ 214	11%

Total revenues increased by $35,000 primarily due to an increase in tax revenue of $21,000 and increases in miscellaneous income of $12,000. Total expenses increased by $63,000 primarily due to significant increases in telecommunication expenses of $41,000, increases in administrative expenses of $18,000, increases in personnel expenses of $12,000, increases in professional fees of $16,000, increases in depreciation of $3,000 and decrease in contract services of $27,000. Other financing sources/ (uses) decreased by $1,000. This resulted in an overall decrease in net position from prior year of $29,000.

Budgetary Highlights

Actual revenues in the General Fund were greater than budgeted revenues by $2,128. Actual General Fund expenditures were $315,266 less than budgeted expenditures. The District did not revise its budget for the General Fund during the fiscal year.

Capital Assets

At September 30, 2016 the District had $40,334 invested in net capital assets. Depreciation on assets was $13,736 for the year.

Victoria County Groundwater Conservation District
Capital Assets
(net of accumulated depreciation)
September 30, 2016
With Comparative Totals for September 30, 2015
(in thousands)

	Governmental Activities		Total Government		Amount Change	% Change
	2016	2015	2016	2015		
Office remodel	$ 13	$ -	$ 13	$ -	$ 13	
Vehicle and equipment	89	74	89	74	15	20%
Subtotal	102	74	102	74	28	38%
Accumulated depreciation	62	48	62	48	14	29%
Capital assets, net	$ 40	$ 26	$ 40	$ 26	$ 14	54%

Additional information on the District's capital assets can be found in the notes to the financial statements.

Debt Outstanding

At year-end, the District had no debt outstanding.

Economic Factors and Next Year's Budgets and Rates

The District's property tax rate for 2016/2017 is $0.00878 per $100 valuation. The net taxable value is $7,148,180,850 for total tax revenue of $627,610.

The District budgeted $664,405 in revenues and $803,750 in expenditures for 2016/2017.

Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District Manager at 2805 N. Navarro, Suite 210, Victoria, Texas 77901.

BASIC FINANCIAL STATEMENTS

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF NET POSITION AND BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2016

	General Fund	Total	Adjustments	Statement of Net Position
Assets				
Cash and investments	$ 2,191,981	$ 2,191,981	$ -	$ 2,191,981
Taxes receivable	45,137	45,137	-	45,137
Other receivables	1,422	1,422	-	1,422
Prepayments	1,458	1,458	-	1,458
Capital assets (net of accumulated depreciation)	-	-	40,334	40,334
Total assets	2,239,998	2,239,998	40,334	2,280,332
Deferred outflows of resources				
Pension contributions made subsequent to the measurement date	-	-	7,162	7,162
Actual experience vs. projections	-	-	7,700	7,700
Changes in assumptions	-	-	607	607
Amortization of prior year outflows	-	-	2,359	2,359
Total deferred outflows of resources	-	-	17,828	17,828
Total assets and deferred outflows of resources	$ 2,239,998	$ 2,239,998	$ 58,162	$ 2,298,160
Liabilities				
Accounts payable	$ 12,010	$ 12,010	$ -	$ 12,010
Accrued liabilities	21,809	21,809	-	21,809
Net pension liability	-	-	424	424
Payroll and other taxes payable	5,868	5,868	-	5,868
Total liabilities	39,687	39,687	424	40,111
Deferred inflows of resources				
Actual experience vs. expectations	-	-	9,913	9,913
Unavailable taxes	45,137	45,137	(45,137)	-
Total deferred inflows of resources	45,137	45,137	(35,224)	9,913
Fund balance				
Nonspendable	1,458	1,458	(1,458)	-
Committed:				
Legal contingencies	1,067,938	1,067,938	(1,067,938)	-
Groundwater research	1,067,938	1,067,938	(1,067,938)	-
Unassigned	17,840	17,840	(17,840)	-
Total fund balance	2,155,174	2,155,174	(2,155,174)	-
Total liabilities, deferred inflows of resources, and fund balance	$ 2,239,998	$ 2,239,998		
Net position:				
Net investment in capital assets			40,334	40,334
Unrestricted			2,207,802	2,207,802
Total net position			$ 2,248,136	$ 2,248,136

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

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF NET POSITION AND BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
September 30, 2016

Amounts reported for governmental activities in the Statement of Net Position (page 8) are different because:

Total fund balance - governmental funds (page 8)	$ 2,155,174
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	40,334
Delinquent taxes receivable are not considered available to pay for current period expenditures and, therefore, are deferred in the funds.	45,137
The net pension asset is not an available resource and, therefore, is not reported in the funds.	(424)
Deferred outflows of resources related to pension expense are not due and payable in the current period and, therefore, are not reported in the funds.	17,828
Deferred inflows of resources related to pension expense are not due and receivable in the current period and , therefore, are not reported in the funds.	(9,913)
Net position of governmental activities	$ 2,248,136

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

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES AND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET POSITION - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	General Fund	Total	Adjustments	Statement of Activities
Revenues				
Property taxes	$ 634,408	$ 634,408	$ 8,019	$ 642,427
Interest income	8,631	8,631	-	8,631
Miscellaneous income	28,386	28,386	-	28,386
Total revenues	671,425	671,425	8,019	679,444
Expenditures/expenses				
Service operations:				
Personnel	205,747	205,747	-	205,747
Professional fees	38,519	38,519	-	38,519
Contracted services	100,164	100,164	-	100,164
Telecommunications	50,252	50,252	-	50,252
Administrative	64,202	64,202	-	64,202
Capital outlay	27,950	27,950	(27,950)	-
Depreciation	-	-	13,736	13,736
Total expenditures/expenses	486,834	486,834	(14,214)	472,620
Excess (deficiency) of revenues over expenditures/expenses	184,591	184,591	22,233	206,824
Other financing sources (uses)				
Decrease in net pension liability	-	-	6,474	6,474
Total other financing sources (uses)	-	-	6,474	6,474
Net change in fund balance/net position	184,591	184,591	28,707	213,298
Fund balance/net position:				
Beginning of the year, as restated	1,970,583	1,970,583	64,255	2,034,838
End of the year	$ 2,155,174	$ 2,155,174	$ 92,962	$ 2,248,136

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

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET POSITION – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Amounts reported for governmental activities in the Statement of Activities (page 10) are different because:

Net change in fund balance - total governmental funds (page 10)	$ 184,591
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	27,950
Depreciation expense on capital assets reported in the government-wide statement of activities does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(13,736)
Governmental funds report contributions made to the pension plan as expenditures. However, in the statement of activities, pension expense is affected by changes in the net pension asset and deferred outflows of resources related to pension expense. This is the amount by which pension contributions exceeded pension expense in the current period.	6,474
Some revenue reported in the governmental funds was earned in prior periods and is not reported in the government-wide statement of activities.	8,019
Change in net position of governmental activities	$ 213,298

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING

Basis of Accounting/Measurement Focus

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the District are described below.

A. Governmental Fund Financial Statements and Government-Wide Financial Statements

The governmental fund financial statements and government-wide financial statements are combined in the Statement of Net Position and Balance Sheet - Governmental Funds and the Statement of Activities and Revenues, Expenditures, and Changes in Fund Balance/Net Position - Governmental Funds. These statements present summaries of governmental activities for the District. Fiduciary activities of the District are not included in these statements.

Government-wide financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position and Balance Sheet - Governmental Funds. The Statement of Activities and Revenues, Expenditures, and Changes in Fund Balance/Net Position - Governmental Funds presents changes in fund balance/net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred regardless of the timing of related cash flows. The types of transactions reported as program revenues for the District are reported in two categories: 1) property taxes, 2) investment earnings and 3) fees charged.

Governmental fund financial statements are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, current liabilities, and current deferred inflows of resources are included on the Statement of Net Position and Balance Sheet - Governmental Funds. The Statement of Activities and Revenues, Expenditures, and Changes in Fund Balance/Net Position - Governmental Funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District are property tax and interest income. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING (Continued)

The following is the District's Governmental Fund type:

General Fund
The General Fund is the general operating fund of the District. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

B. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable
Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted
Amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.

Committed
Amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority, the Board of Directors. To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned
Amounts the District intends to use for a specific purpose, but does not meet the criteria to be classified as restricted or committed. Intent can be expressed by the Board of Directors or by an official to which the District delegates the authority.

Unassigned
All other spendable amounts.

C. Restricted Resources

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

D. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposits with maturity dates of 12 months or less.

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING (Continued)

E. Budget

The Board of Directors prepares and votes on the adopted budget. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP) in the United States of America. Any revisions to the budget are approved by the Board of Directors. The original budget and final amended budget (when applicable) for the General Fund are used in this report.

F. Inventory

There is no inventory at September 30, 2016.

G. Vacation and Sick Leave

Vacation accrues at a rate of .83 days per month or ten days per year for all employees. Sick leave accrues at a rate of .42 days per month or five days per year. At year end, accrued vacation was $14,108 and is included with accrued liabilities. Employees are not entitled to their accrued sick leave if they terminate their employment with the District. Therefore, an accrued liability for sick leave is not recorded.

H. Property Tax

The Appraisal District annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest ultimately imposed for the year on the property. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based upon the aggregate appraisal value.

Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 and attach as an enforceable lien on the property as of July 1 of the following year. The Victoria County Tax Assessor/Collector collects and remits the property taxes to the District on a monthly basis. No allowance for uncollectable taxes has been provided as such amounts are not expected to be material.

The tax rate for 2015/2016 was $0.00878 per $100 valuation. The taxable value was $7,206,058,281. All tax monies are used for maintenance and operations.

I. Deferred Inflows of Resources

The District reports deferred inflows of resources on its General Fund balance sheet. Deferred inflows of resources arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred inflows of resources also arise when the District receives resources before it has legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred inflows of resources is removed from the balance sheet and revenue is recognized.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING (Concluded)

J. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Vehicle and equipment	5 – 7 years

K. Related Party Transactions

There are no material related party transactions.

L. Contracts

Interlocal Cooperation Agreement

The District has entered into an interlocal cooperation agreement with both Texana Groundwater Conservation District (TGCD) and Refugio Groundwater Conservation District (RGCD) to provide office and field equipment incidental to the operation of TGCD and RGCD. TGCD and RGCD shall compensate the District for the services provided. The District earned total revenue of $10,063 from RGCD and $17,749 from TGCD in performance of these services during the fiscal year ended September 30, 2016. These contracts are renewed annually.

During the fiscal year ended September 30, 2016, the District entered into an interlocal agreement with Texana Groundwater Conservation District (TGCD) and Refugio Groundwater Conservation District (RGCD) in order to divide the cost of groundwater studies that will provide benefit to all three districts. TGCD and RGCD each contributed $15,000 up front to cover the costs of the study while the District contributed $25,000 for a total project budget of $55,000. The District is billed for services performed in association with the groundwater study, and makes payment utilizing the funds contributed by TGCD, RGCD, and the District. The project was completed during the fiscal year ended September 30, 2016 and all contributed funds were expended in full. There are no pending liabilities or receivables due to or from TGCD and RGCD related to this project at year end.

The District, along with twelve other groundwater districts which make up Groundwater Management Area 15 (GMA 15), have entered into an interlocal agreement to divide the cost of groundwater studies on behalf of GMA 15. The District is billed for services performed for GMA 15 and a receivable is established to account for monies owed by the other districts within the agreement. At September 30, 2016, the receivable for GMA 15 was $0.

M. Pensions

For purposes of measuring the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCDRS's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2: THE FINANCIAL REPORTING ENTITY

Creation of District

Victoria County Groundwater Conservation District operates with a Board of Directors form of government. The District was created on June 17, 2005 under and subject to the authority, conditions, and restrictions of Section 59, Article XVI, Texas Constitution. It has the same boundaries as Victoria County, which covers an area of 889 square miles and is in the West Gulf Coast Plain of South Texas. The District's mission is to develop, promote, and implement water conservation, augmentation, and management strategies in order to protect water resources for the benefit of the citizens, economy, and environment of Victoria County, Texas.

NOTE 3: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The District's deposits were fully collateralized at September 30, 2016. At year-end, the carrying amount of the District's deposits was $2,191,981 and the respective bank balance totaled $2,200,512. Of the total bank balance, $250,000 was covered by Federal Depository Insurance. The remaining $1,950,512 was covered by additional securities pledged to the District at September 30, 2016. The fair market value of the pledged securities at year end was $2,513,222.

Texas Government Code authorizes Victoria County Groundwater Conservation District to invest in the following eligible securities:

1. A surety bond;
2. An investment security;
3. An ownership or beneficial interest in an investment security, other than an option contract to purchase or sell and investment security;
4. A fixed-rate collateralized mortgage obligation that has an expected weighted average life of 10 years or less and does not constitute a high-risk mortgage security;
5. A floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security;
6. A letter of credit issued by a federal home loan bank.

Investment securities are defined as:

1. An obligation that in the opinion of the Attorney General of the United States is a general obligation of the United States and backed by its full faith and credit;
2. A general or special obligation issued by a public agency that is payable from taxes, revenues, or a combination of taxes and revenues;
3. A security in which a public entity may invest under Subchapter A, Chapter 2256 of Texas Statutes.

NOTE 4: CHANGES IN CAPITAL ASSETS

	Primary Government			
	Balance 10/1/2015	Additions	Retirements	Balance 9/30/2016
Governmental activities:				
Capital assets:				
Office remodel	$ -	$ 13,000	$ -	$ 13,000
Vehicle and equipment	74,227	14,950	-	89,177
Total capital assets at historical cost	74,227	27,950	-	102,177
Less accumulated depreciation for:				
Office remodel	-	650	-	650
Vehicle and equipment	48,107	13,086	-	61,193
Total accumulated depreciation	48,107	13,736	-	61,843
Governmental activities capital assets, net	$ 26,120	$ 14,214	$ -	$ 40,334

Depreciation expense was charged to primary government in the amount of $13,736.

NOTE 5: OPERATING LEASE

The District leases office space from Victoria County, Texas for $1,436 per month plus a potential increase from year to year for lessor's increased amount of maintenance, repair, cleanup, and utilities provided, however, such increase shall not be more than five percent in any lease year. Total rent expense for the office space was $17,232 for the year ended September 30, 2016. The lease expires September 30, 2020.

The amount due in subsequent years (without the increased cost provision) is as follows:

Year Ended September 30,	Amount Due
2017	$ 17,232
2018	17,232
2019	17,232
2020	17,232
	$ 68,928

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ended September 30, 2016, the District purchased commercial insurance to cover these risks.

NOTE 7: PENSION PLAN

A. Plan Description

The District provides retirement benefits for their respective full-time employees through nontraditional defined benefit plans in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent multiple-employer public employee retirement system consisting of 677 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.

B. Benefits Provided

The plan provisions are adopted by the Board of Directors, within the options available in the state statutes governing TCDRS (TCDRS Act). Employees can retire regardless of age with 30 years of service. The "Rule of 80" will determine retirement eligibility. Members are vested after 10 years 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.

NOTE 7: PENSION PLAN

B. Benefits Provided (Concluded)

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 Board of Directors within the 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 the benefit is calculated by converting the sum of the employee's accumulated contribution and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Plan Provisions for the District were as follows:

	Plan Year 2015
Employee deposit rate	5.0%
Matching ratio (District to employee)	1.5 to 1
Years required for vesting	10
Service retirement eligibility (expressed as age/years of service)	80/10, 0/30
Updated service credit	0%

Employees covered by benefit terms
At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	3
Totals	3

C. Contributions

The contribution rate for employees in TCDRS is either 4%, 5%, 6%, or 7% of compensation, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees. Investment income funds are a large part of the benefits employees earn.

Employees of the District were required to contribute 5% of their annual gross earnings during the fiscal year ended September 30, 2016. The contribution rates for the District were 5.70% in the calendar year 2015 and 5.69% in the calendar year 2015. The District's contributions to TCDRS for the year ended September 30, 2016 were $9,976.

NOTE 7: PENSION PLAN (Continued)

D. **Net Pension Liability**

The District's Net Pension Liability (NPL) was measured as of December 31, 2015 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:
The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation:	3.0% per year
Overall payroll growth:	0.0% per year
Investment Rate of Return	8.0%, net of pension plan investment expense, including inflation

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

Mortality rates for active members were based on the RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year set-back, both with the projection scale AA. Mortality rates for service retirees, beneficiaries and non-depositing members is based on the RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females. The Mortality rates for disabled retirees is based on the RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

The actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study from the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 8.10%. This rate reflects the long-term rate of return funding valuation assumption of 8.00% plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68. The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed 2013. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the below table. These capital market assumptions are based on January 2016 information for a 7-10 year time horizon.

NOTE 7: PENSION PLAN (Continued)

D. Net Pension Liability (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
US Equities	14.50%	5.45%
Private Equity	14.00%	8.45%
Global Equities	1.50%	5.75%
International Equities - Developed	10.00%	5.45%
International Equities - Emerging	8.00%	6.45%
Investment-Grade Bonds	3.00%	1.00%
High-Yield Bonds	3.00%	5.10%
Opportunistic Credit	2.00%	5.09%
Direct Lending	5.00%	6.40%
Distressed Debt	3.00%	8.10%
REIT Equities	3.00%	4.00%
Master Limited Partnerships (MLPs)	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%
Totals	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

NOTE 7: PENSION PLAN (Continued)

D. Net Pension Liability (Concluded)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at December 31, 2014	$ 88,191	$ 79,890	$ 8,301
Changes for the year:			
Service cost	14,780	-	14,780
Interest on total pension liability	7,633	-	7,633
Effect of plan changes	(3,122)	-	(3,122)
Effect of economic/demographic gains or losses	(12,147)	-	(12,147)
Effect of assumptions changes or inputs	668	-	668
Administrative expenses	-	(64)	64
Member contributions	-	8,003	(8,003)
Net investment income	-	(1,365)	1,365
Employer contributions	-	9,123	(9,123)
Other	-	(8)	8
Net changes	7,812	15,689	(7,877)
Balance at December 31, 2015	**$ 96,003**	**$ 95,579**	**$ 424**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what Victoria County Groundwater Conservation District net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.10%) or one percentage point higher (9.10%) than the current rate.

	1% Decrease in Discount Rate (7.10%)	Discount Rate (8.10%)	1% Increase in Discount Rate (9.10%)
Total pension liability	$ 111,952	$ 96,003	$ 82,720
Fiduciary net position	95,579	95,579	95,579
Net pension liability/(asset)	$ 16,373	$ 424	$ (12,859)

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www.tcdrs.org.

NOTE 7: PENSION PLAN (Continued)

E. Pension Expense, Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016 the District recognized pension expense (income) of $(6,474).

At September 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 11,043	$ 1,130
Changes in assumptions	-	607
Net difference between projected and actual earnings	-	7,700
Contributions made subsequent to measurement date	-	7,162
Total	$ 11,043	$ 16,599

Deferred outflows of resources of $7,162, related to pension resulting from contributions subsequent to the measurement date, will be recognized as an addition of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		Net Deferred Outflows (Inflows) of Resources
2016		$ 1,064
2017		1,064
2018		1,064
2019		785
2020		(930)
Thereafter		(4,653)
Total		$ (1,606)

NOTE 7: PENSION PLAN (Concluded)

Group Term Life Fund

The District also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas County and District Retirement System (TCDRS) known as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a post-employment benefit other than pension benefits (OPEB). Retired employees are insured for $5,000.

The GTLF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available CAFR that includes financial statements and required supplementary information for the GTLF. This report may be obtained by writing to TCDRS, P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782. TCDRS's CAFR is also available at www.tcdrs.org.

Funding Policy

Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The District contributions to the GTLF for the years ended September 30, 2016, 2015, and 2014 were $412, $368, and $368, respectively, which equaled the contractually required contributions each year.

NOTE 8: PRIOR PERIOD ADJUSTMENTS

Restatement of Beginning Balances

During the year, it was determined that deferred inflows/outflows related to pensions should have been recorded for the fiscal year ended September 30, 2015, as per *Governmental Accounting Standards Board (GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27)*. To correct this error, the net position of the District's governmental activities has been restated. The impact of this restatement on net position is as follows:

	Governmental Activities
Net position, September 30, 2015, as previously stated	$ 2,025,520
Restatement of deferred inflows/outflows related to pension assets	9,318
Net position, September 30, 2015, as restated	$ 2,034,838

NOTE 9: FUND BALANCES

The Government committed the following fund balance types by taking the following action:

Committed Purpose	Amount	Action
Legal contingencies	$ 1,067,938	Through formal action
Groundwater research	$ 1,067,938	Through formal action

The Government does not have a formal minimum fund balance policy.

A schedule of fund balances is provided below:

	General Fund	Total Governmental Funds
FUND BALANCES		
Nonspendable	$ 1,458	$ 1,458
Committed:		
Legal contingencies	1,067,938	1,067,938
Groundwater research	1,067,938	1,067,938
Unassigned	17,840	17,840
Total fund balance	$ 2,155,174	$ 2,155,174

NOTE 10: SUBSEQUENT EVENTS

No material subsequent events were noted for the fiscal year ended September 30, 2016.

In preparing these financial statements, events and transactions have been evaluated for potential recognition or disclosure through May 26, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended September 30, 2016

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	$ 634,297	$ 634,408	$ 111
Interest income	5,000	8,631	3,631
Miscellaneous income	30,000	28,386	(1,614)
Total revenues	669,297	671,425	2,128
Expenditures/expenses			
Service operations:			
Personnel	205,400	205,747	(347)
Professional fees	100,000	38,519	61,481
Contracted services	233,600	100,164	133,436
Utilities	55,000	50,252	4,748
Administrative	193,100	64,202	128,898
Capital outlay	15,000	27,950	(12,950)
Total expenditures/expenses	802,100	486,834	315,266
Excess (deficiency) of revenues over expenditures/expenses	$ (132,803)	$ 184,591	$ 317,394

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
TCDRS – SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (unaudited)
For the Year Ended September 30, 2016

	2014	2015
Total pension liability		
Service cost	$ 13,862	$ 14,780
Interest on total pension liability	5,977	7,633
Effect of plan changes	-	(3,122)
Effect of economic/demographic gains or losses	1,356	(12,147)
Effect of assumptions changes or inputs	-	668
Net change in total pension liability	21,195	7,812
Total pension liability - beginning	66,996	88,191
Total pension liability - ending (a)	$ 88,191	$ 96,003
Plan fiduciary net position		
Administrative expenses	$ (54)	$ (64)
Member contributions	7,491	8,003
Net investment income	4,138	(1,365)
Employer contributions	8,435	9,123
Other	(4)	(8)
Net change in plan fiduciary net position	20,006	15,689
Plan fiduciary net position - beginning	59,884	79,890
Plan fiduciary net position - ending (b)	$ 79,890	$ 95,579
Net pension liability - ending (a) - (b)	$ 8,301	$ 424
Plan fiduciary net position as a percentage of total pension liability	90.59%	99.56%
Covered employee payroll	$ 149,829	$ 160,048
Net pension liability as a percentage of covered employee payroll	5.54%	0.27%

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
TCDRS – SCHEDULE OF CONTRIBUTIONS (unaudited)
For the Year Ended September 30, 2016

	2014	2015
Actuarially determined contribution	$ 8,435	$ 9,123
Contributions in relation to the actuarially determined contribution	9,274	9,976
Contribution deficiency (excess)	$ (839)	$ (853)
Covered employee payroll	157,318	168,023
Contributions as a percentage of covered employee payroll	5.90%	5.94%

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
TCDRS – NOTES TO SCHEDULE OF CONTRIBUTIONS (unaudited)
For the Year Ended September 30, 2016

Valuation timing:	Actuarially determined contributions rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.00%
Salary Increases	3.90% to 8.75% including inflation
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-living adjustments for Victoria County Groundwater Conservation District are not considered to be substantively automatic under GASB 68. Therefore, no assumptions for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Experienced-based table of rates that are specific to the District's plan of benefits.
Turnover	0.00%
Mortality	
Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year set-back, both with the projection scale AA.
Service retiree, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

Other Information:

Notes	There were no benefit changes during the year.

VICTORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
NOTE TO REQUIRED SUPPPLEMENTARY INFORMATION
For the Year Ended September 30, 2016

NOTE 1: BUDGET

The budget for the Governmental Fund adopted during the year by the District was prepared using the modified accrual basis of accounting in accordance with generally accepted accounting principles. The General Fund has a legally adopted budget.