

**NORTH TEXAS GROUNDWATER  
CONSERVATION DISTRICT**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED DECEMBER 31, 2011**

RUTHERFORD, TAYLOR & COMPANY, P.C.  
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NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
 ANNUAL FINANCIAL REPORT  
 YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
North Texas Groundwater Conservation District

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Texas Groundwater Conservation District (District) as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the North Texas Groundwater Conservation District, as of December 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note G to the financial statements, the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

June 5, 2012  
Greenville, Texas

RUTHERFORD,  
TAYLOR &  
COMPANY, P.C.  
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Board of Directors  
North Texas Groundwater Conservation District

We have audited the financial statements of the governmental activities and each major fund of the North Texas Groundwater Conservation District (District) as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose as described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

June 5, 2012  
Greenville, Texas

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011

North Texas Groundwater Conservation District (District) is pleased to present its financial statements. This required supplementary information presents our discussion and analysis of the District's financial performance during the year ended December 31, 2011. Please read this section in conjunction with the basic financial statements which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's combined total net assets were negative \$ 439,061 at December 31, 2011.
- During the year, the District's expenses were \$ 327,104 more than the \$ 28,127 generated from Intergovernmental Support and other revenues for Governmental Activities.
- The General Fund presents a year end fund balance of \$ 445,107 at December 31, 2011.

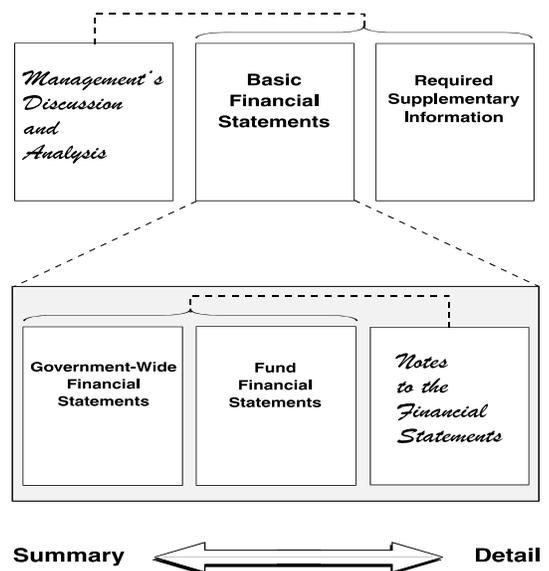
**OVERVIEW OF THE FINANCIAL STATEMENTS**

In addition to this Management's Discussion and Analysis, this report consists of government-wide financial statements, fund financial statements, and the notes to the financial statements. The first two statements are condensed and present a government-wide view of the District's finances. The government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the District.

*Basic Financial Statements*

- The Statements of Net Assets focuses on resources available for future operations. In simple terms, the statement presents a snapshot of the assets of the District, the liabilities it owes, and the net difference. The net difference is further separated into amounts restricted for specific purposes, if any, and unrestricted amounts. The information presented in this statement is reported on the accrual basis of accounting.
- The Statement of Activities focuses on gross and net costs of the District's programs and the extent to which such programs rely on general revenues. The statement summarizes and simplifies the users analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on individual funds, including assets liabilities and fuel equity. Separate revenues and expenditures analysis are presented to each major fund.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

**Figure A-1, Required Components of the District's Annual Financial Report**



NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011

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

Net assets may serve over time as a useful indicator of a government's financial position. For the District, the total combined net assets were negative \$ 439,061 at year end, due to organizational costs incurred during the year with no related revenue earned or accrued during the year. A comparative condensed summary of the District's statements of net assets is typically presented here.

<b>North Texas Groundwater Conservation District's Net Assets</b>			<b>Table A-1</b>
	2011	2010	Total Percentage Change 2010 - 2011
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 474,879	\$ 343,049	38.43%
Prepaid Expenses and other Current Assets	2,109	-	100.00%
Capital Assets, Net of Accumulated Depreciation	15,832	-	100.00%
<b>Total Assets</b>	<b>\$ 492,820</b>	<b>\$ 343,049</b>	<b>43.66%</b>
<b>Liabilities:</b>			
Current Liabilities	\$ 165,849	\$ 5,006	3213.00%
Long-term Liabilities	766,032	450,000	70.23%
<b>Total Liabilities</b>	<b>\$ 931,881</b>	<b>\$ 455,006</b>	<b>104.81%</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	\$ 15,832	\$ -	100.00%
Unrestricted	(454,893)	(111,957)	306.31%
<b>Total Net Assets</b>	<b>\$ (439,061)</b>	<b>\$ (111,957)</b>	<b>292.17%</b>

At current year end, the largest portion of the District's total assets, (96.4%), represents its cash and cash equivalents. These assets are available for future spending, which is why they are a major component of unrestricted net assets in the financial statements. 3.2% represents the District's investment in fixed assets, net of accumulated depreciation, which the remaining 0.4% represents prepaid expenses.

The District's liabilities consist of accounts payable for items or services received during the year, but not paid out in cash until after year end, as well as interest payable on long-term debt and deferred revenues, which represents cash receipts from participating counties but not yet recognized as intergovernmental support.

Unrestricted net assets represent amounts available for future spending.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011

**CHANGES IN NET ASSETS**

The District's total revenues were \$ 28,127, in intergovernmental support and interest earned on cash deposits.

The total cost of all services was \$ 355,231, for legal fees and administration of the program.

A condensed summary of the District's statements of activities and changes in net assets for the years ended December 31, 2011 and 2010 is presented here:

<b>Changes in North Texas Groundwater Conservation District's Net Assets</b>			<b>Table A-2</b>
	2011	2010	Total Percentage Change 2010 - 2011
Operating Revenues:			
Charges for Services	\$ -	\$ -	0.00%
Total Revenues	\$ -	\$ -	0.00%
Operating Expenses:			
Administrative Services	\$ 355,231	\$ 112,121	216.83%
Total Expenses	\$ 355,231	\$ 112,121	216.83%
Nonoperating Revenues (Expenses):			
Interest Income	\$ 2,885	\$ 164	1659.15%
Intergovernmental Support	25,242	-	100.00%
Total Nonoperating Revenues (Expenses)	\$ 28,127	\$ 164	17050.61%
Increase (Decrease) in Net Assets	<u>\$ (327,104)</u>	<u>\$ (111,957)</u>	192.17%

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The governmental funds of the District reported no general revenues during the current year, but received additional loans from participating counties in the amount of \$ 450,000 for organizational costs, and earned \$ 2,885 in interest income on cash deposits. The loans are payable to the participating counties at zero interest, with payments set to begin in 2013 and be paid in full by 2017. As the zero interest loans are long-term in nature, Accounting Standards require that for reporting purposes, interest be imputed, reducing the principal portion and increasing the interest payable and deferred revenue portion. Thus the total cash payout is the same, but it is represented as principal and interest.

**BUDGETARY HIGHLIGHTS**

The District's Board of Directors adopted a final operating budget for the 2011 fiscal year, based on actual receipts and expenditures (unaudited), prior to year end. The budget encompasses all the activities of the District, which would normally include both revenues and expenditures.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of December 31, 2011, the District had invested \$ 16,624 in fixed assets.

North Texas Groundwater Conservation District's Capital Assets			Table A-3
	2011	2010	Total Percentage Change 2010 - 2011
Vehicles	\$ 16,624	\$ -	100.00%
Totals at Historical Cost	\$ 16,624	\$ -	100.00%
Total Accumulated Depreciation	(792)	-	100.00%
Net Capital Assets	<u>\$ 15,832</u>	<u>\$ -</u>	100.00%

**Debt**

The District maintains a loan payable, received from the Counties participating in the District, for organizational costs and administration of the program. At December 31, 2011, the District's outstanding debt balance was \$ 766,032.

North Texas Groundwater Conservation District's Long Term Debt			Table A-4
	2011	2010	Total Percentage Change 2010 - 2011
Loans Payable	\$ 766,032	\$ 383,016	100.00%
Total Debt Payable	<u>\$ 766,032</u>	<u>\$ 383,016</u>	100.00%

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District adopted the next year's budget to provide for the developing nature of the services provided by the District, which will increase over the current year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jerry Chapman, General Manager for the District.

BASIC FINANCIAL STATEMENTS

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

	Governmental Activities
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 474,879
Prepaid Expenses	2,109
Total Current Assets	\$ 476,988
Non-Current Assets:	
Capital Assets	
Vehicles, Net	\$ 15,832
Total Non Current Assets	\$ 15,832
<b>Total Assets</b>	<b>\$ 492,820</b>
 <b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 31,881
Interest Payable	25,242
Deferred Revenue	108,726
Total Current Liabilities	\$ 165,849
Non-Current Liabilities:	
Loan Payable	\$ 766,032
Total Non-Current Liabilities	\$ 766,032
Total Liabilities	\$ 931,881
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	\$ 15,832
Unrestricted	(454,893)
Total Net Assets	\$ (439,061)
<b>Total Liabilities and Net Assets</b>	<b>\$ 492,820</b>

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Administration	\$ 355,231	\$ -	\$ 25,242	\$ (329,989)
Total Governmental Activities	<u>\$ 355,231</u>	<u>\$ -</u>	<u>\$ 25,242</u>	<u>\$ (329,989)</u>
Total Primary Government	<u>\$ 355,231</u>	<u>\$ -</u>	<u>\$ 25,242</u>	<u>\$ (329,989)</u>
General Revenues:				
Interest Income				<u>\$ 2,885</u>
Total General Revenues				<u>\$ 2,885</u>
Change in Net Assets				\$ (327,104)
Net Assets - Beginning (January 1)				<u>(111,957)</u>
Net Assets - Ending (December 31)				<u>\$ (439,061)</u>

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	General Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 474,879
Prepaid Insurance, Supplies and Materials	2,109
Total Current Assets	\$ 476,988
<b>Total Assets</b>	<b>\$ 476,988</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 31,881
Total Current Liabilities	\$ 31,881
<b>Total Liabilities</b>	<b>\$ 31,881</b>
<b>Equity</b>	
Unrestricted	\$ 445,107
Total Equity	\$ 445,107
<b>Total Liabilities &amp; Equity</b>	<b>\$ 476,988</b>

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS  
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
 DECEMBER 31, 2011

Total fund balance - governmental funds (Exhibit A-3)	\$	445,107
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore not reported in the balance sheet.		15,832
Interest portion of note proceeds recorded in the current period as deferred revenues are recognized as earned in the current period in the fund.		(108,726)
Noncurrent liabilities are not due and payable in the current period and therefore not reported in the funds		(766,032)
Interest payable on noncurrent liabilities is not due and payable in the current period and is not reported in the funds		(25,242)
		(439,061)
Total net assets - governmental activities (Exhibit A-1)	\$	(439,061)

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2011

	General Fund
<b>OPERATING REVENUES</b>	
Groundwater Usage Fees	\$ -
<hr/>	
Total Operating Revenues	\$ -
<b>OPERATING EXPENSES</b>	
Administration	\$ 238,028
Legal Fees	54,931
Consulting Fees	52,862
<hr/>	
Total Operating Expenses	\$ 345,821
Operating Revenue (Expenses)	<b>\$ (345,821)</b>
<b>NON-OPERATING REVENUE (EXPENSES)</b>	
Interest Income	\$ 2,885
Loan Proceeds	450,000
Total Non-Operating Revenue (Expenses)	\$ 452,885
Net Change in Fund Balance	<b>\$ 107,064</b>
Fund Balance - Beginning (January 1)	338,043
<b>Fund Balance - Ending (December 31)</b>	<b>\$ 445,107</b>

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCE OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED DECEMBER 31, 2011

Net change in fund balance - total governmental funds (Exhibit C-1)	\$ 107,064
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital asset cost is allocated over the estimated useful life and reported as depreciation in the Statement of Activities	(792)
Capital outlays (purchases of Capital Assets) are not reported as expenses in the Statement of Activities	16,624
Proceeds from debt issued not revenue in the SOA	(450,000)
Interest accrued in the current year is reported as an expense in the SOA	(25,242)
Intergovernmental Support is recognized as revenue in the SOA	25,242
	<hr/>
Change in net assets of governmental activities (Exhibit B-1)	<u>\$ (327,104)</u>

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

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

A. Summary of Significant Accounting Policies

The basic financial statements of the North Texas Groundwater Conservation District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The North Texas Groundwater Conservation District (District), is a political subdivision of the State of Texas, created under the authority of Article XVI, Section 59, Texas Constitution, and operating pursuant to the provisions of the Texas Water Code, Chapter 36, and Senate Bill 2497, Acts of the 81<sup>st</sup> Texas Legislature, Regular Session, 2010. The District encompasses the North Texas counties of Collin, Cooke, and Denton. The Board of Directors (Board), a nine member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities within the jurisdiction of the District. The Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Reporting Standards, since Board members are appointed, have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

As required by accounting principles generally accepted in the United States of America, the basic financial statements of the reporting entity include those of the District (primary government) and its component units. There are no component units included in these basic financial statements.

2. Basis of Presentation – Basis of Accounting

*Government-wide Statements* – The statement of net assets (SNA) and the statement of activities (SOA) include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities (SOA) presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, and other charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxing entities allocations and investments, are presented as general revenues.

*Fund Financial Statements* – The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Any remaining governmental funds are aggregated and reported as non-major funds.

District accounts are organized on the basis of funds, each of which is considered a separate accounting entity. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations or other appropriate requirements. The fund types and funds utilized by the District are described below:

Governmental fund types include the following –

The *General Fund* is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds are accounted for in this fund.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

A. Summary of Significant Accounting Policies (Continued)

3. Measurement Focus - Basis of Accounting

*Government-wide Statements* – These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxing entity allocations. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Fund Financial Statements* – The modified accrual basis of accounting is used for the governmental fund types. This basis of accounting recognizes revenue in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest on general long term debt, which is recognized when due. Expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

4. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

B. Deposits, Securities and Investments

The District's funds are deposited and invested in the Independent Bank, McKinney, Texas. During the year ended December 31, 2011, all District cash deposits appeared to have been covered by FDIC insurance or by pledged securities held by other banks in the name of the depository bank. The District's deposits appear to have been properly secured throughout the fiscal year.

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Custodial Credit Risk

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

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

C. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the last fiscal year, and there were no settlements exceeding insurance coverage in the past year.

D. Litigation

The District does not appear to be involved in any pending litigation as of December 31, 2011.

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

E. Capital Assets

The following is a summary of changes in capital assets during the year:

	Beginning Balances 1/01/2011	Additions and Reclassifications	Deletions	Ending Balances 12/31/2011
Vehicles	\$ -	\$ 16,624	\$ -	\$ 16,624
Totals at Historical Cost	\$ -	\$ 16,624	\$ -	\$ 16,624
Less Accumulated Depreciation for:				
Vehicles	\$ -	\$ 792	\$ -	\$ 792
Total Accumulated Depreciation	\$ -	\$ 792	\$ -	\$ 792
Net Capital Assets	\$ -	\$ 15,832	\$ -	\$ 15,832

F. Long-term Obligations

Changes In General Long Term Debt

	Beginning Balance 1/01/2011	Additions	Deletions	Ending Balance 12/31/2011	Current Portion of Debt
Loans Payable	\$ 383,016	\$ 383,016	\$ -	\$ 766,032	\$ -
Total Debt Payable	\$ 383,016	\$ 383,016	\$ -	\$ 766,032	\$ -

Loans

The District is obligated under a contract executed by the Board for the organizational and operational costs of the District prior to the receipt of revenues necessary for operations. This contract is with the participating counties, those of Collin, Cooke and Denton. This loan, in the contract-stated amount of \$ 900,000, incurs no interest and has a payback schedule that calls for full repayment of the loan, in equal annual payments to each county, beginning in 2013 and maturing fully in 2017. Though the contract terms of the agreement state that the loan carries no interest, GAAP requires that interest be imputed on long-term loans, thus converting \$ 133,968 of the loan repayment to interest, and causing the remaining \$ 766,032 to be reflected as principal payable on the Statement of Net Assets. Interest expense, as imputed, will accrue in the 2012 year, and will be reflected as interest expense, but will not be paid out until the 2013 year, when the first annual payment is required. Amounts representing the current year portion of interest expense, calculated at 3.25% based on market rates for loans of similar amounts and terms, appear on the Statement of Net Assets as "Interest Payable." Amounts representing subsequent years' portions of interest expense, having been received but not yet recognized, appear on the Statement of Net Assets as "Deferred Revenue".

Year Ending December 31	Principal	Interest	Total Requirements
2012	\$ -	\$ 26,145	\$ 26,145
2013	101,677	26,936	128,613
2014	158,109	21,891	180,000
2015	163,319	16,681	180,000
2016	168,669	11,331	180,000
2017 - 2021	174,258	5,742	180,000
Totals	\$ 766,032	\$ 108,726	\$ 874,758

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

G. Change in Accounting Principle

The District implemented Governmental Accounting Standard Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* during the year. The Statement applies to the governmental fund types and reclassifies the beginning of year fund balances to reflect the appropriate nonspendable, restricted, committed, assigned and unassigned classifications. Note A provides the definitions and disclosures required by the new pronouncement.

H. Subsequent Events

Subsequent events have been evaluated through June 5, 2012, which is the date the financial statements were available to be issued. There do not appear to be any events occurring after year end that could have an impact on the financial statements at December 31, 2011 as presented.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH TEXAS GROUNDWATER CONSERVATION DISTRICT  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Groundwater Usage Fees	\$ -	\$ -	\$ -	\$ -
Total Operating Revenues	\$ -	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES</b>				
Administration	\$ 167,050	\$ 297,653	\$ 238,028	\$ 59,625
Legal Fees	45,000	59,500	54,931	4,569
Consulting Fees	55,000	55,000	52,862	2,138
Total Operating Expenses	\$ 267,050	\$ 412,153	\$ 345,821	\$ 66,332
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Income	\$ -	\$ 3,763	\$ 2,885	\$ (878)
Loan Proceeds	450,000	450,000	450,000	-
Total Nonoperating Revenues (Expenses)	\$ 450,000	\$ 453,763	\$ 452,885	\$ (878)
Change in Net Assets	\$ 182,950	\$ 41,610	\$ 107,064	\$ 65,454
Net Assets - Beginning (January 1)	-	-	-	-
<b>Net Assets - Ending (December 31)</b>	<b>\$ 182,950</b>	<b>\$ 41,610</b>	<b>\$ 107,064</b>	<b>\$ 65,454</b>