

**HARRIS-GALVESTON
SUBSIDENCE DISTRICT**

Annual Financial Report

Year Ended December 31, 2015

HARRIS-GALVESTON SUBSIDENCE DISTRICT
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Harris-Galveston Subsidence District
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Harris-Galveston Subsidence District (the "District") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 each major fund of the Harris-Galveston Subsidence District, as of December 31, 2015, 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 on pages 5 through 10 and the general fund budgetary information on pages 30 through 33 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.

Whitley Penn LLP
Houston, Texas
April 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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HARRIS-GALVESTON SUBSIDENCE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Harris-Galveston Subsidence District, we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the Harris-Galveston Subsidence District for the fiscal year ended December 31, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Harris-Galveston Subsidence District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of Harris-Galveston Subsidence District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The government-wide financial statements can be found on pages 12 through 13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Harris-Galveston Subsidence District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 14 through 17 of this report.

Government-wide Financial Analysis
Financial Highlights

The assets of the Harris-Galveston Subsidence District exceeded its liabilities at the close of the most recent fiscal year by \$7.15 million (Net Position). Of this amount, \$5.86 million (unrestricted net position) may be used to meet the ongoing obligations to creditors.

HARRIS-GALVESTON SUBSIDENCE DISTRICT NET POSITION <i>December 31, 2015 and 2014</i>	2015	2014
Current and other assets	\$ 6,891,664	\$ 6,041,816
Capital assets	1,039,681	838,382
Total Assets	7,931,345	6,880,198
Long term liabilities	24,392	27,390
Other liabilities	759,844	619,597
Total Liabilities	784,236	646,987
Net Position		
Investment in capital assets	1,039,681	838,382
Restricted	249,264	114,575
Unrestricted	5,858,164	5,280,254
Total Net Position	\$ 7,147,109	\$ 6,233,211

HARRIS-GALVESTON SUBSIDENCE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The government's net position increased by \$914 thousand during the current fiscal year. The following table summarizes the changes in net position for the District for the year ended December 31, 2015 and 2014:

HARRIS-GALVESTON SUBSIDENCE DISTRICT *Table A-2*
CHANGES IN NET POSITION
For the years ended December 31, 2015 and 2014

	2015	2014
Revenues		
Program Revenues (Charges for Services):		
Groundwater management	\$ 3,038,173	3,549,946
Science and research	452,652	
Water conservation program	2,257,295	2,080,210
General revenues:		
Unrestricted Investment Earnings	4,822	4,670
Miscellaneous	84,728	25,978
Total Revenues	5,837,670	5,660,804
Expenses		
Groundwater management	2,914,261	2,976,657
Water conservation program and disincentive fee	2,009,511	2,002,500
Total Expenses	4,923,772	4,979,157
Change in Net Position	913,898	681,647
Net Position, beginning of year	6,233,211	5,551,564
Net Position, end of year	\$ 7,147,109	\$ 6,233,211

Governmental Activities. A comparison of program expenses to program revenues and revenues by source for governmental activities follows:

HARRIS-GALVESTON SUBSIDENCE DISTRICT *Table A-3*
EXPENSES, PROGRAM REVENUES AND NET COST OF SERVICES -
GOVERNMENTAL ACTIVITIES
For the years ended December 31, 2015 and 2014

Program	Expenses	Program Revenues	2015 Net Revenue (Cost) of Services	2014 Net Revenue (Cost) of Services
Groundwater management	\$ 2,914,261	\$ 3,038,173	\$ 123,912	\$ 573,289
Science and research		452,652	452,652	
Water conservation program	2,009,511	2,257,295	247,784	77,710
	\$ 4,923,772	\$ 5,748,120	\$ 824,348	\$ 650,999

HARRIS-GALVESTON SUBSIDENCE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Revenue sources for governmental activities were distributed as follows:

HARRIS-GALVESTON SUBSIDENCE DISTRICT
REVENUES BY SOURCE - GOVERNMENTAL
ACTIVITIES
For the year ended December 31, 2015

Table A-4

	<u>Dollars</u>	<u>Percentage</u>
Charges for services	\$ 5,748,120	98.47%
Unrestricted investment earnings	4,822	0.08%
Miscellaneous	84,728	1.45%
	<u>\$ 5,837,670</u>	<u>100%</u>

Financial Analysis of the Government's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing Harris-Galveston Subsidence District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6.13 million, an increase of \$710 thousand from the prior year. The increase in fund balance in the general fund was due in part to a decrease in personnel expenses including a reimbursement from the water conservation fund for salaries related to the water conservation program.

The General Fund is the chief operating fund of Harris-Galveston Subsidence District. At the end of the current fiscal year the fund balance of the General Fund was \$4.03 million.

General Fund Budgetary Highlights

The adopted budget for fiscal year 2015 set general fund revenues at \$3.13 million, a \$445 thousand decrease from 2014 actual revenues. Expenditures in 2015 were set at \$3.70 million, \$638 thousand more than 2014 actual.

During the year 2015, actual revenues were less than budgeted by \$8 thousand. This is mainly in part to actual permit fee revenues being less than budgeted.

Total expenditures in 2015 were under budget by \$583 thousand. This is due to two projects budgeted in 2015 which extended into 2016. The construction project on the office building wasn't completed in 2015 and thus budgeted expenditures are being carried forward to 2016 in the amount of \$336,442. The development of the permit tracking system wasn't completed in 2015 and therefore budgeted expenditures are being carried forward to 2016 in the amount of \$42,669.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Asset Administration

Capital Assets. Harris-Galveston Subsidence District's investment in capital assets for its governmental type activities, as of December 31, 2015, amounted to \$1,039,681 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, machinery, vehicles, and office equipment and furniture. The total increase in the District's investment in capital assets, for the current fiscal year, was approximately 24% percent.

A summary of capital assets, as of December 31, 2015, is as follows:

HARRIS-GALVESTON SUBSIDENCE DISTRICT *Table A-5*
CAPITAL ASSETS, NET OF DEPRECIATION WHERE
APPLICABLE
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Land	\$ 225,632	\$ 225,632
Construction in progress	261,033	18,890
Intangible assets, software	126,280	174,623
Buildings and improvements	295,483	315,550
Equipment and furniture	96,794	103,687
Vehicles	34,459	-
	<u>\$ 1,039,681</u>	<u>\$ 838,382</u>

Additional information on the District's capital assets can be found in Note 4 to the basic financial statements of this report.

Economic Factors and Next Year's Budgets and Rates

On November 10, 2015, the District adopted its 2016 budget, which represents a decrease in revenues of 0.5% and a decrease in expenditures of 4.4% when compared to the 2015 approved budget.

District billing rates for the 2016 fiscal year remained consistent with the rates established in the prior year.

Below is a comparison of the 2016 budget with 2015 actual revenues and expenditures:

HARRIS-GALVESTON SUBSIDENCE DISTRICT *TABLE A-6*
General Fund Budget (in thousands)

	2015 <u>Actual</u>	2016 <u>Budget</u>	Increase <u>(Decrease)</u>
Revenues	\$ 3,127	\$ 3,120	0%
Expenditures	3,119	3,539	13%
Revenues over expenditures	<u>\$ 8</u>	<u>\$ (419)</u>	

HARRIS-GALVESTON SUBSIDENCE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

In 2015, the District established a Science and Research Fund (SRF) to provide resources for enhanced data collection and scientific research related to groundwater resources and subsidence within the District's region. The SRF is funded with disincentive fees collected by the District, which in the prior year were accounted for in the General Fund. These funds will be utilized to support subsidence projects conducted by universities, non-governmental agencies, local/county/state agencies, federal agencies and private consultants. In addition, the SRF will provide fundamental support to the District's regulatory plan by conducting research that enhances the understanding and effective management of the Upper Gulf Coast Aquifer System to minimize subsidence and ensure the long term viability of all the water resources within the District.

Requests for Information

This financial report is designed to provide a general overview of the Harris-Galveston Subsidence District's finances for all those with an interest in the government's finances. Questions concerning any of the information in this audit or other District financial statements should be directed to either the General Manager or the Administrative Officer.

FINANCIAL SECTION

HARRIS-GALVESTON SUBSIDENCE DISTRICT
STATEMENT OF NET POSITION
December 31, 2015

	Governmental Activities
Assets	
Cash and equivalents	\$ 2,264,356
Certificates of deposit	4,000,000
Receivables, net of allowance for doubtful accounts	609,535
Prepaid items	17,773
Capital assets, net of depreciation/amortization where applicable:	
Land and improvements	225,632
Construction in progress	261,033
Intangible assets, software	126,280
Buildings and improvements	295,483
Equipment, furniture, and vehicles	131,253
Total capital assets	<u>1,039,681</u>
Total Assets	<u>7,931,345</u>
Liabilities	
Accounts payable and accrued expenses	658,537
Unearned revenues	101,307
Long-term liabilities:	
Due in more than one year	24,392
Total Liabilities	<u>784,236</u>
Net Position	
Investment in capital assets	1,039,681
Restricted for water conservation program	249,264
Unrestricted	5,858,164
Total Net Position	<u>\$ 7,147,109</u>

See accompanying Notes to Financial Statements.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2015

	General	Water Conservation Program	Science and Research	Total
Assets				
Cash and equivalents	\$ 657,288	\$ 501,331	\$ 1,105,737	\$ 2,264,356
Certificates of deposit	3,400,000		600,000	4,000,000
Prepaid items	17,773			17,773
Receivables, net of allowance for doubtful accounts	187,973	250,986	170,576	609,535
Total Assets	\$ 4,263,034	\$ 752,317	\$ 1,876,313	\$ 6,891,664
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenditures	\$ 155,484	\$ 503,053	\$	\$ 658,537
Unearned revenue	79,738		21,569	101,307
Total Liabilities	235,222	503,053	21,569	759,844
Fund Balances:				
Nonspendable	17,773			17,773
Restricted for water conservation program		249,264		249,264
Committed for science and research			1,854,744	1,854,744
Unassigned	4,010,039			4,010,039
Total Fund Balances	4,027,812	249,264	1,854,744	6,131,820
Total Liabilities and Fund Balances	\$ 4,263,034	\$ 752,317	\$ 1,876,313	\$ 6,891,664

See accompanying Notes to Financial Statements.

HARRIS-GALVESTON SUBSIDENCE DISTRICT

***RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION***

December 31, 2015

Total fund balances, governmental funds \$ 6,131,820

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 1,039,681

Long-term liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

Compensated Absences (24,392)

Net Position of Governmental Activities in the Statement of Net Position \$ 7,147,109

See accompanying Notes to Financial Statements.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General	Water Conservation Program	Science and Research	Total
Revenues				
Permit fees, net	\$ 2,141,801	\$	\$	\$ 2,141,801
Application fees, net	397,495			397,495
Compromise and settlement	158,633		252,461	411,094
Interlocal agreement	340,244			340,244
Water conservation program		2,257,295		2,257,295
Disincentive fee			200,191	200,191
Interest	3,886	682	254	4,822
Other	84,728			84,728
Total Revenues	3,126,787	2,257,977	452,906	5,837,670
Expenditures				
Current:				
Personnel	1,608,462			1,608,462
Board of directors	113,802			113,802
Office supplies	252,062			252,062
Information and education	30,952	2,009,511		2,040,463
Building operations	91,296			91,296
Transportation	29,151			29,151
Contract services	731,852			731,852
Capital Outlay	260,981			260,981
Total Expenditures	3,118,558	2,009,511		5,128,069
Revenues Over (Under) Expenditures	8,229	248,466	452,906	709,601
Other Financing Sources (Uses)				
Transfers In	113,777		1,401,838	1,515,615
Transfers Out	(1,401,838)	(113,777)		(1,515,615)
Total other financing sources and uses	(1,288,061)	(113,777)	1,401,838	
Net change in fund balance	(1,279,832)	134,689	1,854,744	709,601
Fund balances at beginning of year	5,307,644	114,575		5,422,219
Fund Balances at End of Year	\$ 4,027,812	\$ 249,264	\$ 1,854,744	\$ 6,131,820

See accompanying Notes to Financial Statements.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Net change in fund balances - total governmental funds: \$ 709,601

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlay in the current period	312,066
Depreciation in the current period	(110,767)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued compensated absences	<u>2,998</u>
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Change in Net Position of governmental activities	<u><u>\$ 913,898</u></u>
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See accompanying Notes to Financial Statements.

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HARRIS-GALVESTON SUBSIDENCE DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The District was created by a special act of the Texas Legislature under Article 16, Section 59 of the Texas Constitution. The Act provides that the District is responsible for the regulation of the withdrawal of groundwater within the boundaries of Harris and Galveston Counties for the purpose of ending subsidence in those areas. Persons or entities operating or drilling water wells are required by the Act to apply for a permit.

The District's Board of Directors is responsible for the approval and issuance of permits and the rate of permit fees. Fees are based on the permit term and the maximum annual amount of groundwater authorized to be withdrawn from the well.

Permit fees collected by the District are used to cover the costs of issuing permits and performing other regulatory functions under the Act.

The District considers water conservation education to be an important component to fulfilling its mission and accordingly administers a water conservation program.

The District is governed by an appointed board and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District's financial reporting entity. No other entities, organizations or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining the District's financial reporting entity status is that of a primary government are: that it has a separate governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additional prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The governmental accounting standards board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

B. 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 about the District as a whole. These statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are 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 segment.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. 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 recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 if 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 60 days of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

The District reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal source of revenue of the General Fund is permit fees. Expenditures are for general government purposes.

The *Water Conservation Fund* accounts for revenue sources that are restricted to expenditures for interlocal agreements with business and governmental entities which participate in the water conservation project.

The *Science and Research Fund* accounts for a disincentive fee applied to permitted groundwater withdrawals that exceed designated percentages of a permit holders' total water demand for permit holders who fail to meet the regulatory requirements in Regulatory Areas 1, 2 and 3. The funds will be used to support subsidence related projects aimed to minimize subsidence and ensure the long term viability of all the water resources within the District, as outlined in the Science and Research Plan.

HARRIS-GALVESTON SUBSIDENCE DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

D. Cash and temporary investments (Cash Equivalents)

The District's cash and temporary investments consist of petty cash, checking account and amounts in demand deposits and short-term investments with a maturity date within one year of the date acquired by the District.

E. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of December 31, 2015, an allowance of \$5,077 has been recorded for compromise and settlement permit fee receivables in the General Fund. An allowance of \$5,000 and \$20,000 has been recorded in the Science and Research Fund for disincentive permit fee receivables and disincentive compromise and settlement fee receivables, respectively.

F. Due to and from Other Funds

Interfund receivables and payables that arise from interfund transactions are recorded by all funds affected in the period in which the transactions are executed.

G. Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of three years. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements and equipment are capitalized. Capital assets are depreciated over their remaining useful lives using the straight-line method as follows:

Asset	Useful Life
Buildings	20-50 years
Machinery and Equipment	4-10 years
Intangible Assets	5 years

H. Unearned Revenues

Unearned revenues include prepaid permit fees and permit fees assessed for the 2016 fiscal year end.

I. Compensated Absences

Employees earn vacation based on years of service with the District and may accumulate unused time up to a maximum of 40 to 80 hours. In accordance with GAAP, the liability for accumulated vacation, as of December 31, 2015, has been recorded as a liability in the Government-Wide Statement of Net Position.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

J. Fund Balance Flow Assumptions

The District's governmental fund balances are classified as follows:

- Nonspendable – includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – includes amounts restricted by external sources or by constitutional provision or enabling legislation. The amount reported as restricted at December 31, 2015 is for the water conservation project due to contractual obligations related to the sponsor interlocal agreement.
- Committed – amounts that can be set aside for a specific purpose by formal action taken by the Board.
- Assigned – amounts that can be intended for a specific purpose that do not meet the definition of committed or restricted. Per the Board policy, amounts can be authorized by the General Manager.
- Unassigned – includes amounts that have not been assigned to other funds or restricted or committed to a specific purpose within the General Fund.

It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of committed, assigned, unassigned fund balance.

K. Net Position Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

L. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could vary from those estimates.

M. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Cash and Temporary Investments

Cash and investments consist of checking and time deposit accounts and certificates of deposits.

At December 31, 2015, cash and temporary investments consisted of the following:

	Governmental Activities
Cash	
Checking accounts	\$ 2,263,996
Petty Cash	360
Total Cash	<u>2,264,356</u>
Investments	
Certificates of Deposits	4,000,000
Total Investments	<u>4,000,000</u>
Total Cash and Investments	<u>\$ 6,264,356</u>

Investment Policies

The District is authorized by state statutes to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certificates of deposit obtained through a depository institution that has its main office or branch office in Texas and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.01(a) and (b) of the Public Funds Investment Act (PFIA), and (4) certain qualified local government investment pools.

As of December 31, 2015, the District's investments consist of certificates of deposits only.

Deposits

Custodial Credit Risk: In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. State statutes require that all amounts deposited in financial institutions be covered by federal depository insurance and if necessary pledged collateral. The types of collateral to be pledged to secure District funds are stated in state statutes. The District's deposits at December 31, 2015 were secured by depository insurance or by collateral held by a third-party custodian in the District's name, and thus were not exposed to custodial credit risk. The District's total deposits at December 31, 2015 were \$2,263,996.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates may adversely affect the value of investments. The District addresses interest rate risk by limiting investments to a maturity of one year or less. All of the District's time deposits at December 31, 2015 will mature within the next year.

Credit Risk: State law limits investments in all categories to top ratings issued by nationally recognized rating agency. The District's policy limits investments to obligations of the United States or its agencies, direct obligations of the State of Texas or its agencies and local government investment pools. At December 31, 2015, the District has no investments exposed to credit risk.

Concentration of credit risk: The District's investment policy calls for diversification of the portfolio, but does not specify limits. At December 31, 2015, time deposits made up approximately 64% of the District's cash and temporary investments.

HARRIS-GALVESTON SUBSIDENCE DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 – Receivables

Amounts recorded as receivables as of December 31, 2015, for the government’s individual major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water Conservation Program</u>	<u>Science and Research</u>	<u>Total</u>
Receivables				
Permit fees	\$ 69,433	\$	\$ 25,148	\$ 94,581
Compromise and settlement	74,544		170,174	244,718
Water conservation program		250,986		250,986
Accrued interest	1,214		254	1,468
Other	47,859			47,859
Gross Receivables	<u>193,050</u>	<u>250,986</u>	<u>195,576</u>	<u>639,612</u>
Less: Allowance for doubtful accounts	(5,077)		(25,000)	(30,077)
Net Receivables	<u>\$ 187,973</u>	<u>\$ 250,986</u>	<u>\$ 170,576</u>	<u>\$ 609,535</u>

HARRIS-GALVESTON SUBSIDENCE DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

Note 4 - Capital Assets

A summary of activity for capital assets, for the year ended December 31, 2015, follows:

	Balance 12/31/2014	Additions / Reclassifications	Retirements / Reclassifications	Balance 12/31/2015
Capital assets not being depreciated				
Land	\$ 225,632	\$	\$	\$ 225,632
Construction in progress	18,890	242,143		261,033
Total capital assets not being depreciated	<u>244,522</u>	<u>242,143</u>		<u>486,665</u>
Intangible assets being amortized				
Software	252,819	2,258		255,077
Capital assets being depreciated				
Buildings	793,216			793,216
Machinery and equipment	1,420,328			1,420,328
Office equipment and furniture	262,773	30,073		292,846
Vehicles	105,657	37,592	(37,590)	105,659
Total capital assets/intangibles being depreciated	<u>2,834,793</u>	<u>69,923</u>	<u>(37,590)</u>	<u>2,867,126</u>
Accumulated amortization				
Software	(78,196)	(50,601)		(128,797)
Accumulated depreciation				
Buildings	(477,666)	(20,067)		(497,733)
Machinery and equipment	(1,403,474)	(6,320)		(1,409,794)
Office equipment and furniture	(175,940)	(30,646)		(206,586)
Vehicles	(105,657)	(3,133)	37,590	(71,200)
Total accumulated depreciation/amortization	<u>(2,240,933)</u>	<u>(110,767)</u>	<u>37,590</u>	<u>(2,314,110)</u>
Total capital assets being depreciated, net	<u>593,860</u>	<u>(40,844)</u>		<u>553,016</u>
Total capital assets, net	<u>\$ 838,382</u>	<u>\$ 201,299</u>	<u>\$</u>	<u>\$ 1,039,681</u>

Depreciation expense for the current year was charged to the groundwater management function.

The District entered into a contract with a construction company to provide construction services related to a remodeling of the District office to be conducted in 2015 - 2016. The remaining commitment associated with the contract at 12/31/2015 is \$327,737.

Note 5 - Compensated Absences

A liability for earned but unused vacation as of December 31, 2015, for \$24,392 has been recorded in the statement of net position. Compensated absences are liquidated by the general fund. A summary of the change in compensated absences for the period ended December 31, 2015, follows:

Balance, beginning of year	\$ 27,390
Addition	2,296
Reduction	(5,294)
Balance, end of year	<u>\$ 24,392</u>

HARRIS-GALVESTON SUBSIDENCE DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Pension Plan

The District has established the Harris-Galveston Subsidence District Qualified Pension Plan 401(a) (the “Plan”). The Plan covers all employees and board members. The Board of Directors appointed the International City/County Management Association-Retirement Corporation (ICMA-RC) to serve as Plan Administrator and trustee. All employees are eligible to participate in the Plan upon employment. All Board Members are eligible to participate in the plan upon appointment to the board.

The Plan provides for a minimum District contribution of 15% of total current covered payroll. Contributions are funded twice a month. Under the terms of the Plan, active participants, as of August 1, 1996, are 100% vested. Participants eligible, after August 1, 1996, become 100% vested on the fifth anniversary of employment. Participants are eligible for payment of benefits upon reaching age 65, becoming disabled or separating from service for any other reason. Benefits are distributed in accordance with the instructions of the participants.

At December 31, 2015, all of the District’s employees and board members were members of the Plan. Non-vested contributions are immaterial to total contributions at December 31, 2015. Vested contributions are solely the possession of participating employees.

At December 31, 2015, the total plan assets were \$4,658,514. The assets belong to the pension plan and are not included in the financial statements of the District. The assets are self-directed by participants into available investments and were allocated as follows as of year-end:

	Balance	Percent of Assets
Stable Value/Money Market Funds	\$ 866,496	19%
Bond Funds	135,547	3%
Balanced Funds	1,286,448	28%
U.S. Stock Funds	2,067,518	44%
International Stock Funds & Specialty	302,505	6%
	<u>\$ 4,658,514</u>	<u>100%</u>

Total current payroll expenditures for employee salaries and board member per diem was \$1,190,915 and \$52,050 respectively for the year ended December 31, 2015, all of which was covered under the Plan. Employer contributions to the Plan, for the year ended December 31, 2015 were \$186,445 which represents the required District contribution of 15 percent. In addition, as of December 31, 2015, the Plan forfeiture account amounted to \$5,042.77.

Note 7 - Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees upon employment, and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by ICMA-RC.

HARRIS-GALVESTON SUBSIDENCE DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Retirement Health Savings Plan

The District offers a Retirement Health Savings Plan (RHS Plan) to provide reasonable security for health needs during retirement. The plan was established on November 8, 2000, by the Board of Directors. Full time employees who are not eligible for retirement health benefits under the District's employee benefit plan are eligible for the retirement health savings plan. Employees are eligible for participation after one year of service. At December 31, 2015, the District had 18 employees, with 16 eligible and participating in the plan.

The RHS Plan provides for a District contribution of \$1,500 plus 1% of previous year's pay for the plan year. The District will also contribute any accrued vacation in excess of two weeks (up to 80 hours) that remains unused at the end of the year. Under the RHS Plan, an employee will be 100% vested on the fifth anniversary of plan participation. A participant is eligible to receive benefits at retirement age of 62.

Employer contributions to the plan, for the year ended December 31, 2015, were \$40,452, which includes the District's contribution as well as additional contributions for unused vacation hours.

Note 9 - Risk Management

The District is exposed to various risks related to torts: theft of, damage to and destruction of assets; errors and omissions and natural disasters. The District's risk management program encompasses various means of protecting the District against loss by obtaining property, casualty and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the District in the risk pool is limited to the payment of premiums. Settled claims have not exceeded insurance coverage in any of the previous three fiscal years. There has not been any significant reduction in insurance coverage from that of the previous year.

Note 10 - Health Insurance

Employees of the District are covered by a fully insured health care plan. In the current year, the District covered the health insurance premium at a rate of 80 - 90% based on the coverage plan elected with the employee covering the remaining 10 - 20% of the annual premium.

HARRIS-GALVESTON SUBSIDENCE DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Interlocal Agreements

Fort Bend Subsidence District Administration

In September 1989, the Fort Bend Subsidence District (FBSD) was established by Article 16, Section 59 of the Texas Constitution. FBSD is an autonomous legal entity that is responsible for the regulation of ground water withdrawal in Fort Bend County. Pursuant to an interlocal agreement between the FBSD and the District, the District is responsible for performing substantially all of the administrative functions associated with the conduct of FBSD's operations. Accordingly, the District provides FBSD with personnel, research services and billing services.

In exchange for these services, FBSD paid the District \$273,500 and reimbursed expenditures of \$66,744 for the year ended December 31, 2015.

Water Conservation Project

The District has entered into interlocal agreements with local businesses and governmental entities to participate in a water conservation project. The project is designed to achieve water conservation through the retrofit of plumbing fixtures combined with a strong educational program administered through public schools. The District has agreed to coordinate and administer the project. The entities have agreed to sponsor the program by contributing \$35.40 for each student participating in the project. As the revenue received is restricted to a specific use, the District has established a special revenue fund to record revenue and expenditures related to the water conservation project.

REQUIRED SUPPLEMENTARY INFORMATION

HARRIS-GALVESTON SUBSIDENCE DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - (GAAP BASIS)
 GENERAL FUND
 For the Year Ended December 31, 2015
 with Comparative Actual Information for the Year Ended December 31, 2014

	2015		Actual	Final Budget	2014
	Original Budget	Final Budget		vs. Actual	
				Variance	
				Positive	Actual
				(Negative)	
Revenues					
Permit fees, net:					
Permit fees	\$ 2,197,000	\$ 2,197,000	\$ 2,150,757	\$ (46,243)	\$ 2,181,852
Permit fees (DF)					309,712
Permit fee refunds			(8,956)	(8,956)	(8,319)
Permit fee refunds (DF)					(79,351)
	<u>2,197,000</u>	<u>2,197,000</u>	<u>2,141,801</u>	<u>(55,199)</u>	<u>2,403,894</u>
Application fees, net:					
Application fees	385,000	385,000	367,970	(17,030)	399,750
Emergency approval fees			29,700	29,700	23,000
Application fee refunds			(175)	(175)	(250)
	<u>385,000</u>	<u>385,000</u>	<u>397,495</u>	<u>12,495</u>	<u>422,500</u>
Compromise and settlements:					
Compromise and settlements	161,000	161,000	158,633	(2,367)	340,960
Compromise and settlements (DF)					38,611
	<u>161,000</u>	<u>161,000</u>	<u>158,633</u>	<u>(2,367)</u>	<u>379,571</u>
Interlocal agreement	<u>355,000</u>	<u>355,000</u>	<u>340,244</u>	<u>(14,756)</u>	<u>343,981</u>
Interest revenue	<u>7,100</u>	<u>7,100</u>	<u>3,886</u>	<u>(3,214)</u>	<u>4,285</u>
Other:					
Miscellaneous	5,700	5,700	7,150	1,450	5,753
Miscellaneous legal revenue	24,000	24,000	77,578	53,578	20,225
	<u>29,700</u>	<u>29,700</u>	<u>84,728</u>	<u>55,028</u>	<u>25,978</u>
Total Revenues	<u>3,134,800</u>	<u>3,134,800</u>	<u>3,126,787</u>	<u>(8,013)</u>	<u>3,580,209</u>

HARRIS-GALVESTON SUBSIDENCE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - (GAAP BASIS)

GENERAL FUND

For the Year Ended December 31, 2015

with Comparative Actual Information for the Year Ended December 31, 2014

	2015			Final Budget vs. Actual	2014
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Expenditures					
Personnel					
Salaries	\$ 1,179,416	\$ 1,179,416	\$ 1,190,915	\$ (11,499)	\$ 1,228,858
Retirement	171,760	171,760	178,637	(6,877)	184,329
Group health insurance	230,482	230,482	166,557	63,925	197,587
Retirement health system	37,701	37,701	40,452	(2,751)	75,094
Life insurance	7,990	7,990	7,217	773	7,164
Disability insurance	5,496	5,496	5,392	104	5,349
Medicare - employer	16,603	16,603	14,406	2,197	14,771
Workers' compensation insurance	8,086	8,086	4,886	3,200	5,298
Unemployment					3,910
	<u>1,657,534</u>	<u>1,657,534</u>	<u>1,608,462</u>	<u>49,072</u>	<u>1,722,360</u>
Board of directors					
Member per diem	52,000	52,000	52,050	(50)	51,450
Board travel	17,500	17,500	8,460	9,040	12,453
Office and director liability insurance	7,500	7,500	7,357	143	5,816
Board FICA	750	750	755	(5)	747
Board retirement	8,200	8,200	7,808	392	7,695
Other	50,550	50,550	37,372	13,178	18,852
	<u>136,500</u>	<u>136,500</u>	<u>113,802</u>	<u>22,698</u>	<u>97,013</u>
Office supplies					
Supplies	18,000	18,000	13,010	4,990	14,983
Mail and postage	20,000	20,000	22,024	(2,024)	22,550
Equipment repair and upgrade	35,100	35,100	32,067	3,033	31,322
Computer software	45,600	35,600	33,020	2,580	28,253
Telephone	48,000	48,000	43,974	4,026	59,906
Legal notices	75,000	75,000	76,874	(1,874)	72,467
Surety bonds	500	500	404	96	404
Equipment rental	17,500	17,500	23,401	(5,901)	24,980
Miscellaneous supplies and equipment	9,000	9,000	7,288	1,712	6,821
	<u>268,700</u>	<u>258,700</u>	<u>252,062</u>	<u>6,638</u>	<u>261,686</u>
Information and education					
Memberships, dues and subscriptions	8,500	8,500	5,128	3,372	9,409
Conference and meetings	15,500	15,500	9,030	6,470	13,428
Travel	21,500	21,500	15,582	5,918	10,538
Printing and publications			289	(289)	
Employee training	3,600	3,600	923	2,677	1,435
	<u>49,100</u>	<u>49,100</u>	<u>30,952</u>	<u>18,148</u>	<u>34,810</u>

HARRIS-GALVESTON SUBSIDENCE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - (GAAP BASIS)
GENERAL FUND

For the Year Ended December 31, 2015

with Comparative Actual Information for the Year Ended December 31, 2014

	2015			Final Budget vs. Actual	2014
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Building operations					
Utilities	\$ 34,000	\$ 34,000	\$ 32,254	\$ 1,746	\$ 32,596
Insurance	10,000	10,000	7,487	2,513	8,016
Janitorial	11,700	11,700	11,700		10,725
Building maintenance	38,300	38,300	34,698	3,602	16,309
Grounds maintenance	6,600	6,600	5,157	1,443	4,614
	<u>100,600</u>	<u>100,600</u>	<u>91,296</u>	<u>9,304</u>	<u>72,260</u>
Transportation					
Operating supplies	12,000	12,000	7,462	4,538	10,063
Vehicle maintenance	13,000	13,000	5,093	7,907	8,119
Tolls, parking and miscellaneous	4,000	4,000	5,557	(1,557)	5,325
Vehicle insurance	3,000	3,000	4,587	(1,587)	1,405
Mileage allowances	12,000	12,000	6,452	5,548	7,392
	<u>44,000</u>	<u>44,000</u>	<u>29,151</u>	<u>14,849</u>	<u>32,304</u>
Contract services					
Audit	20,000	20,000	18,634	1,366	21,253
USGS - studies	343,000	343,000	284,700	58,300	282,200
Legal	157,000	157,000	173,504	(16,504)	194,490
Engineering fees	86,000	101,500	101,478	22	105,362
Management services	75,000	49,000	25,028	23,972	28,644
Hearing examiner	21,400	21,400	20,400	1,000	20,400
GPS systems	40,500	40,500	38,108	2,392	3,566
NGS Advisor	70,000	70,000	70,000		39,363
	<u>812,900</u>	<u>802,400</u>	<u>731,852</u>	<u>70,548</u>	<u>695,278</u>
Capital outlay					
IT Systems development	40,000	44,927	2,258	42,669	66,249
IT Equipment	25,000	30,073	30,073		35,913
Motor vehicles	50,000	50,000	37,592	12,408	
Building improvements	170,000	527,500	191,058	336,442	45,890
	<u>285,000</u>	<u>652,500</u>	<u>260,981</u>	<u>391,519</u>	<u>148,052</u>
Total Expenditures	<u>3,354,334</u>	<u>3,701,334</u>	<u>3,118,558</u>	<u>582,776</u>	<u>3,063,763</u>
Revenues Over (Under) Expenditures	(219,534)	(566,534)	8,229	574,763	516,446
Other Financing Sources (Uses)					
Transfers In (from WCP)			113,777	(113,777)	
Transfers Out (to SRF)			(1,401,838)	1,401,838	
Total Other Financing Sources (Uses)			<u>(1,288,061)</u>	<u>1,288,061</u>	
Change in fund balances	(219,534)	(566,534)	(1,279,832)	697,272	516,446
Fund balances at beginning of year	<u>5,307,644</u>	<u>5,307,644</u>	<u>5,307,644</u>		<u>4,791,198</u>
Fund Balances at end of Year	<u>\$ 5,088,110</u>	<u>\$ 4,741,110</u>	<u>\$ 4,027,812</u>	<u>\$ 697,272</u>	<u>\$ 5,307,644</u>

General Budget Policies

The budget is prepared using the same method of accounting as for financial reporting. An annual appropriations budget for the General Fund is prepared and approved by the Board. Amendments to the budget require Board approval. There was one budget amendment in 2015, an increase in account 596 – Building Improvements in the amount of \$347,000, increasing the budget amount to \$527,500.

Amounts budgeted for projects but not spent in the current year are considered to be carried forward to the next year. In the current year, there were two non-spent budget amounts carried forward to 2016. Those amounts include \$336,442 in account 596 – Building Improvements, costs related to the remodel of the office building and \$42,669 in account 579 – IT Systems Development, costs related to the development of the permit tracking system software.