

**SOUTHERN TRINITY GROUNDWATER
CONSERVATION DISTRICT**

**BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2015

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Southern Trinity Groundwater Conservation District

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southern Trinity Groundwater Conservation District
Waco, Texas 76703

We have audited the accompanying financial statements for the business-type activities of Southern Trinity Groundwater Conservation District as of and for the years then ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 net position of the business-type activities of Southern Trinity Groundwater Conservation District as of September 30, 2015 and 2014 and the changes in net position and cash flows for the years then ended in conformity 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 management's discussion and analysis (MD&A) on pages iii through vi, and the budgetary comparison information on page 7, 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.

Other Information

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2016, on our consideration of Southern Trinity Groundwater Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.



February 12, 2016
Belton, Texas 76513

Southern Trinity Groundwater Conservation District

Management's Discussion and Analysis

The management of Southern Trinity Groundwater Conservation District (the District) offers the following overview and analysis of the financial statements and financial activities for the District for the fiscal year ended September 30, 2015.

Financial Highlights

- The assets of the District exceeded the liabilities at the close of the most recent Fiscal year by \$393,498. This unrestricted net position may be used to meet the District's on-going obligations to customers and creditors.
- Receivables of the district included, based on rates and fees, \$15,728, 4% of current assets and a litigious settlement remaining of \$8,840.
- Payables of the District were \$6,958, a 82% increase from the prior year

Overview of the Financial Statements

The intent of the discussion and analysis is to serve as an introduction to the District's basic financial statements.

Fund financial statements: A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The only fund used by the District is classified as a proprietary fund.

Proprietary funds: The District maintains one type of proprietary fund, considered to be its major fund and referred to as its enterprise fund. The District uses an enterprise fund to account for and report business-type activities such as its well production fees and other permits, fees, and expenditures in the proprietary fund financial statements.

Notes to the financial statements: These notes provide additional information that is essential to the full understanding of data provided in the proprietary fund financial statements.

Financial Analysis of the District's Funds

As noted earlier, the net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$393,498 at the close of the most recent fiscal year. Typically, a portion of the District's net position reflects its investments in capital assets (i.e., office and field equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to promote water conservation and monitoring in McLennan County. Although the District's investment in its capital assets, as reported net of related debt, should also be noted that there is no debt encumbrance upon these assets.

**Southern Trinity Groundwater Conservation District
Net Position – Proprietary Fund
September 30, 2015 and 2014**

	Business-type Activities <u>2015</u>	Business-Type Activities <u>2014</u>
Assets:		
Current assets	\$ 391,616	\$ 424,615
Capital and other assets (net of accumulated depreciation and/or amortization)	<u>8,840</u>	<u>11,440</u>
Total assets	<u>\$ 400,456</u>	<u>\$ 436,055</u>
Liabilities:		
Short-term liabilities outstanding	<u>\$ 6,958</u>	<u>\$ 3,834</u>
Total liabilities	<u>\$ 6,958</u>	<u>\$ 3,834</u>
Net position:		
Net investment in capital assets	\$ -0-	\$ -0-
Unrestricted net position	<u>393,498</u>	<u>432,221</u>
Total net position	<u>\$ 393,498</u>	<u>\$ 432,221</u>

The balance of unrestricted net position, (100%) of the total net position, may be used to meet the District's ongoing obligations to customers and creditors.

At the end of the 2014/2015 fiscal year, the District reports a favorable balance in all of the categories of net position.

Southern Trinity Groundwater Conservation District
Revenues, Expenditures, and Changes in Net Position – Proprietary Fund
September 30, 2015 and 2014

	Business-Type Activities <u>2015</u>	Business-Type Activities <u>2014</u>
Operating revenues:		
Service and regulatory fees	\$ 138,663	\$ 157,511
Other revenues:		
Investment earnings and other miscellaneous revenues	1,065	1,326
Total revenues	<u>139,728</u>	<u>158,837</u>
Expenditures:		
Operating:		
Salaries, benefits, and intern	81,943	95,699
Professional fees	49,828	38,086
General and administrative	35,425	18,146
Total operating expenditures	<u>167,196</u>	<u>151,931</u>
Special projects	11,255	26,298
Total expenditures	<u>178,451</u>	<u>178,229</u>
Increase (decrease) in net Position	(38,723)	(19,392)
Net position, beginning of the year	432,221	451,613
Change in Capital Assets	<u>-0-</u>	<u>-0-</u>
Net position, end of the year	<u>\$ 393,498</u>	<u>\$ 432,221</u>

The District's net position decreased \$(38,723) during the current fiscal year. Overall, operation cost increased by \$15,265 and there was a 12% decrease in revenue from well production.

Capital Asset Administration

Capital Assets: The District's investment in capital assets for its business-type activities as of September 30, 2015, amounts to \$ -0- (net of accumulated depreciation). In February of 2012, the District enacted through Board action a Capital Policy of \$25,000. All new capital assets acquired costing less than \$25,000 will be expensed. This policy is also consistent with the District's bid protocol for purchases of \$25,000 or more.

Southern Trinity Groundwater Conservation District
Capital Assets
(Net of Depreciation)
September 30, 2015

	<u>Business-type Activities</u>
Furniture and equipment	\$ 7,546
Accumulated depreciation	<u>(7,546)</u>
Total (net of accumulated depreciation)	<u>\$ -0-</u>

Requests for Information

The design of this financial report is to provide a general overview of the District's finances for all those with an interest. Address any questions concerning the information provided in this report or requests for additional financial information to the General Manager of Southern Trinity Groundwater Conservation District, P.O. Box 2205, Waco, Texas 76703.

Financial Section

Southern Trinity Groundwater Conservation District
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2015 and 2014

	Business-Type Activities Enterprise Fund Well Production Fund 2015	Business-Type Activities Enterprise Fund Well Production Fund 2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 129,197.50	\$ 164,091.01
Invested Funds	246,690.07	246,074.31
Accounts Receivable	15,728.11	14,449.78
Total Current Assets	391,615.68	424,615.10
NON-CURRENT ASSETS		
Capital Assets		
Furniture and Equipment	7,545.75	7,545.75
Less Accumulated Depreciation	(7,545.75)	(7,545.75)
Total Capital Assets (net of accum. deprec.)	-	-
Notes Receivable	8,840.00	11,440.00
Total Non-Current Assets	8,840.00	11,440.00
TOTAL ASSETS	\$ 400,455.68	\$ 436,055.10
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 6,957.79	\$ 3,833.69
Accrued Payroll Taxes	-	-
Total Current Liabilities	6,957.79	3,833.69
TOTAL LIABILITIES	6,957.79	3,833.69
NET POSITION		
Net Investment in Capital Assets	-	-
Unrestricted	393,497.89	432,221.41
TOTAL NET POSITION	393,497.89	432,221.41
TOTAL LIABILITIES AND NET POSITION	\$ 400,455.68	\$ 436,055.10

The accompanying notes are an integral part of these financial statements.
See Independent Auditors' Report

Southern Trinity Groundwater Conservation District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN NET POSITION
PROPRIETARY FUND

For the years ended September 30, 2015 and 2014

	Business-Type Activities Enterprise Fund Well Production Fund 2015	Business-Type Activities Enterprise Fund Well Production Fund 2014
Operating Revenues:		
Annual Well Fees	\$ 6,900.00	\$ 6,950.00
Well Production Fees	122,734.68	136,712.34
Well Drilling Permit	3,328.14	8,448.98
NHUPP Application Fee	1,000.00	-
HUPP Application Fee	1,000.00	-
Well Registration Fee	3,700.00	5,400.00
	138,662.82	157,511.32
Operating Expenses:		
Advertising	1,252.48	1,371.70
Intern	22,726.12	18,040.00
Salaries	54,999.96	72,080.00
Payroll Taxes	4,216.49	5,578.82
Education	-	4,172.88
Insurance	400.00	920.22
Professional Fees - Accounting	5,440.68	5,682.62
Professional Fees - Auditing	4,325.00	4,090.00
Professional Fees - Engineering	19,849.09	8,850.00
Professional Fees - Legal	19,434.69	19,463.15
Professional Fees - Website	778.10	-
Dues and Fees	9,943.44	488.19
General and Administrative	21,829.29	11,193.30
	165,195.34	151,930.88
Operating Income (Loss)	(26,532.52)	5,580.44
Nonoperating Revenues (Expenditures)		
Miscellaneous Income	-	-
Interest Income	1,064.50	1,325.54
Special Projects	(13,255.50)	(26,297.46)
	(12,191.00)	(24,971.92)
Change in Net Position	(38,723.52)	(19,391.48)
Total Net Position - Beginning	432,221.41	451,612.89
Adjustments	-	-
Total Net Position - Ending	\$ 393,497.89	\$ 432,221.41

The accompanying notes are an integral part of these financial statements.
See Independent Auditors' Report

Southern Trinity Groundwater Conservation District
STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the years ended September 30, 2015 and 2014

	<u>Business-Type Activities Enterprise Fund Well Production Fund 2015</u>	<u>Business-Type Activities Enterprise Fund Well Production Fund 2014</u>
<u>Cash Flows from Operating Activities</u>		
Cash received from customers	\$ 138,662.82	\$ 157,511.00
Cash payments to suppliers	(117,940.61)	(123,505.49)
Cash payments to employees	(54,999.96)	(72,080.00)
Net Cash Provided by Operating Activities	<u>(34,277.75)</u>	<u>(38,074.49)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of certificates of deposit	(615.76)	(768.80)
Acquisition of capital assets	-	-
Net Cash Used by Capital and Related Financing Activities	<u>(615.76)</u>	<u>(768.80)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(34,893.51)	(38,843.29)
Cash and cash equivalents - beginning of year	<u>164,091.01</u>	<u>202,934.30</u>
Cash and cash equivalents - end of year	<u>\$ 129,197.50</u>	<u>\$ 164,091.01</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Change in net position	\$ (38,723.52)	\$ (19,391.48)
Adjustments to reconcile operating increase in net position to net cash provided by operating activities:		
Depreciation expense	-	-
(Increase) decrease in accounts receivable	(1,278.33)	551.12
(Increase) decrease in notes receivable	2,600.00	(11,440.00)
Increase (decrease) in accounts payable	3,124.10	(7,794.13)
Increase (decrease) in accrued payables	-	-
Total adjustments	<u>4,445.77</u>	<u>(18,683.01)</u>
Net Cash Provided by Operating Activities	<u>\$ (34,277.75)</u>	<u>\$ (38,074.49)</u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditors' Report

Southern Trinity Groundwater Conservation District
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

I. The Reporting Entity

Southern Trinity Groundwater Conservation District, formerly known as McLennan County Groundwater District, was formed July 23, 2007. The creation of the District is under Senate Bill number 1985. A five member board of Directors, the members of which are appointed by the McLennan County Commissioners, governs the District.

II. Summary of Significant Accounting Policies

Measurement focus, basis of accounting and financial statement presentation

The operations of the District are reported in the proprietary fund.

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

The District reports the following major proprietary fund:

The enterprise fund accounts for the activities of well production throughout McLennan County.

Proprietary funds distinguish operating revenues and expenditures from non-operating items. Operating revenues and expenditures generally result from providing services and well production in connection with the proprietary fund's principal on-going activities. The principal operating revenues of the enterprise fund are charges to customers for well production and services. Operating expenditures for the enterprise funds include the cost of monitoring, billing of well production, administrative expenses and depreciation on capital assets. All revenues and expenditures not meeting this definition are reported as non-operating revenues and expenditures.

Budgeting

The Board of Directors adopts an official budget at the beginning of each fiscal year. The Board approves amendments to the budget as needed throughout the year.

III. Deposits and Investment Risk

The Board has designated one bank as the primary depository for the District's operating funds; American Bank of Waco, with a fiscal year-end balance of \$129,198. The secondary bank, from which a certificate of deposit was purchased, is First National Bank of McGregor, with a fiscal year-end balance of \$246,690.

The District's cash and cash equivalents at September 30, 2015, were entirely covered by FDIC insurance to the standard maximum deposit insurance amount of \$250,000 per institution and account type at the time of the highest combined balance.

The *Public Funds Investment Act* (PFIA) (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and the establishment of appropriate policies. The district has adopted the PFIA as its investment policy.

Southern Trinity Groundwater Conservation District
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

IV. Capital Assets

Property and equipment are carried at cost or at fair market value, if acquired other than by purchase. Estimated useful lives for depreciation calculations are as follows:

	<u>Years</u>
Office and field equipment	3 - 5

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized according to policy. Expenditures for maintenance and repairs are charged to expense as incurred. No assets were pledged as collateral on September 30, 2015.

Depreciation

Depreciation of fixed assets is calculated using the straight-line method for the estimated useful life of the assets. Currently all Capital Assets have been fully depreciated.

V. Litigation

The District has no pending litigation not covered by insurance that would materially affect the financial statements of the District. However, during a past fiscal year, a litigious settlement was achieved in the amount of \$13,000. The court ordered the settlement to be paid out in monthly installments of \$260 per month for 50 months. The balance, net of installments at the fiscal year end was \$8,840.

VI. Subsequent Events

The District management has evaluated subsequent events through February 12, 2016; the date the financial statements were available to be issued. No change to the financial statements for the fiscal year September 30, 2015 is deemed necessary as a result of this evaluation.

Overall Compliance and Internal Control Section

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Southern Trinity Groundwater Conservation District
Waco, TX

We have audited, 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, the basic financial statements of the business-type activities, of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2015, and have issued our report thereon dated February 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

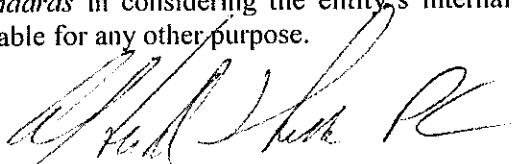
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Belton, Texas
February 12, 2016

Member Texas Society of Certified Public Accountants
Member American Institute of Certified Public Accountants

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REQUIRED SUPPLEMENTARY INFORMATION

Southern Trinity Groundwater Conservation District
STATEMENT OF REVENUE AND EXPENDITURES - PROPRIETARY FUND,
BUDGET (GAAP) AND ACTUAL
For the year ended September 30, 2015

USE OF FUNDS	Adopted Budget	Amendment Entries	Final Budget	Actual	Variance (favorable) unfavorable
Operations					
Advertising - Public Notice	\$ 1,500.00		\$ 1,500.00	\$ 1,252.48	(247.52)
Education	1,500.00		1,500.00	-	(1,500.00)
Equipment Expense	11,675.00	3,500.00	15,175.00	13,385.46	(1,789.54)
Equipment Lease	2,784.00		2,784.00	490.39	(2,293.61)
Insurance & Bonds	715.00		715.00	400.00	(315.00)
Intern/Contract Labor	19,800.00	4,800.00	24,600.00	22,726.12	(1,873.88)
Manager Salary	55,000.00		55,000.00	54,999.96	(0.04)
Membership Dues	4,335.00		4,335.00	9,943.44	5,608.44
Mileage Reimbursement	2,520.00		2,520.00	2,359.00	(161.00)
Miscellaneous	1,800.00		1,800.00	456.70	(1,343.30)
Office Expense	1,000.00		1,000.00	1,188.86	188.86
Payroll Taxes	4,207.50		4,207.50	4,216.49	8.99
Postage	720.00		720.00	790.20	70.20
Professional Fees					
Auditing	4,000.00		4,000.00	4,325.00	325.00
Accounting	5,700.00		5,700.00	5,440.68	(259.32)
Engineering/Geologist/Hydrologist	18,000.00	2,000.00	20,000.00	19,849.09	(150.91)
Legal	33,000.00		33,000.00	19,434.69	(13,565.31)
Website	1,500.00		1,500.00	778.10	(721.90)
Rent/Lease	100.00		100.00	-	(100.00)
Travel and Meetings					
Meetings, Conventions, Seminars	1,200.00		1,200.00	-	(1,200.00)
Telephone	2,724.00		2,724.00	3,158.68	434.68
Total Use of Funds from Operations	173,780.50	10,300.00	184,080.50	165,195.34	(18,885.16)
SOURCE OF FUNDS					
Operations					
Annual Well Fees	6,900.00		6,900.00	6,900.00	0.00
Production Fees	135,987.00		135,987.00	122,734.68	13,252.32
Well Drilling Permit Fees	-		-	3,328.14	(3,328.14)
Late Ann Well Fees	-		-	-	0.00
NHUPP Application Fees	-		-	1,000.00	(1,000.00)
HUPP Application Fees	-		-	1,000.00	(1,000.00)
Well Registration Fee	-		-	3,700.00	(3,700.00)
Reserves from fund balance	-	3,500.00	3,500.00		
Total Operations	142,887.00	3,500.00	146,387.00	138,662.82	4,224.18
Investments					
Interest	660.00	-	660.00	1,064.50	(404.50)
Total Investments	660.00	-	660.00	1,064.50	(404.50)
Total Source of Funds	143,547.00	3,500.00	147,047.00	139,727.32	7,319.68
DEFICIT OF REVENUES OVER EXPENDITURES					
(excluding special projects)	(30,233.50)	(6,800.00)	(37,033.50)	(25,468.02)	(11,565.48)
SPECIAL PROJECTS					
Trinity Aquifer Assessment	-		-	-	-
Brazos Alluvium	-	4,216.00	4,216.00	4,216.00	-
Hensell Formation	-	5,000.00	5,000.00	2,039.50	2,960.50
FHLM Grant	-	2,000.00	2,000.00	2,000.00	-
Well Data Website	-	5,000.00	5,000.00	5,000.00	-
	-	16,216.00	16,216.00	13,255.50	-
DEFICIT OF REVENUES OVER EXPENDITURES	\$ (30,233.50)	\$ (23,016.00)	\$ (53,249.50)	\$ (38,723.52)	

**SOUTHERN TRINITY
GROUNDWATER CONSERVATION DISTRICT**

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES
AND MATERIAL WEAKNESSES AS REQUIRED BY
STATEMENT ON AUDITING STANDARDS NO. 115
(AU-C SECTION 325 and AU-C SECTION 265)**

SEPTEMBER 30, 2015

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February 12, 2016

To the Board of Directors,

Southern Trinity Groundwater Conservation District

420 North 6th Street

Waco, TX 76703

We have audited the basic financial statements of the business-type activities for the proprietary fund of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated July 29, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Southern Trinity Groundwater Conservation District are described in NOTE II to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended September 30, 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the accounts receivable and accounts payable was significant since interim financial statements are presented using the modified cash basis. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the expense of the on-going Trinity Aquifer Assessment under special projects since total expense is estimated to be over half of the total annual budget comparatively.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the Management Representation Letter dated February 12, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of retention. These discussions are communicated to those charged with governance as follows:

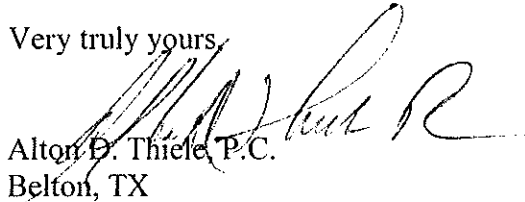
- 1) Contract with Baylor for intern position. The contract specifies a specific amount by which the District is not be charged in excess of during the contract period. The calendar year of January 1 to December 31, 2014, the District was charged in excess of the specified amount in the contract and subsequently with the following contract year of January 1 to December 31, 2015, the district was charged substantially less than the specified amount of the contract. We suggest requiring your contract service provider to present a detailed explanation of the intern compensation to prevent over charges in the future.
- 2) Presenting and approving a deficit budget is not consistent with good accounting practices or sound fiscal responsibility. While your by-laws do not specifically prohibit a deficit budget, they do allude to one in Article VI, Section 6.03 (b)(6) whereby existing fund balance is also disclosed with estimated revenue in order to cover the proposed budget. This will present a balanced budget.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and Management of Southern Trinity Groundwater Conservation District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Alton D. Thiele, P.C.
Belton, TX

**SOUTHERN TRINITY
GROUNDWATER CONSERVATION DISTRICT**

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

SEPTEMBER 30, 2015

ALTON D. THIELE, P.C.

Certified Public Accountant
300 East Avenue C
P.O. Box 808
Belton, TX 76513-0808

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

BELTON, TX 76513-0808

The Board of Directors and General Manager,

Southern Trinity Groundwater Conservation District
420 North 6th Street
Waco, TX 76703

In planning and performing our audit of the basic financial statements of the business-type activities for the proprietary fund of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a material misstatement of the District's financial statements will not be prevented, or detected and corrected, in a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



ALTON D. THIELE, P.C.
Belton, Texas
February 12, 2016