

**MCLENNAN COUNTY GROUNDWATER
CONSERVATION DISTRICT**

**FINANCIAL REPORT
and
INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2008**

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**MCLENNAN COUNTY GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING SEPTEMBER 30, 2008**

This section of the McLennan County Groundwater Conservation District ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on September 30, 2008. Please read it in conjunction with the District's financial statements and accounting notes.

FINANCIAL HIGHLIGHTS

- ** The District's total net assets were \$ 147,603.
- ** Cash and investments were \$ 118,949.
- ** Liabilities were \$50,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The district is a governmental entity and follows the accrual basis of accounting for a single purpose governmental entity. The District is not funded by property tax levies.

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets. The following table summarizes the changes in Net Assets

	<u>2008</u>
Current Assets	\$ 147,231
Capital Assets	744
Accumulated Depreciation	-372
Total Liabilities	-50,000
Net Assets	\$ 97,603

**MCLENNAN COUNTY GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING SEPTEMBER 30, 2008**

Operating Activities. The following table summarizes the changes in Operating Income for fiscal year 2008

	<u>2008</u>
Revenue	\$199,496
Interest Income	904
Expenditures excluding depreciation	102,425
Depreciation	372
Net Change in Net Assets	\$ 97,603

Actual results from operations of the District compared favorable with the budget for the year. The revenues were under the budget and total expenditures were below budget. The net budget results were positive.

CAPITAL ASSETS AND DEBT

The district purchased office computer cash and the District has outstanding debt of \$50,000 due to McLennan County.

FUTURE EVENTS

The District was created on June 15, 2007. The District is currently working on management plan and procedures which should be complete plan and procedures in 2009.

ALTON D. THIELE, P. C.

Certified Public Accountant
312 E. Central Avenue
P.O. Box 808
BELTON, TX 76513-0808

INDEPENDENT AUDITORS' REPORT

Board of Directors
McLennan County Groundwater Conservation District
Bellmead, Texas

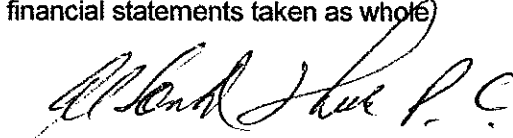
We have audited the accompanying statement of net assets of McLennan County Groundwater Conservation District (MCGCD) as of September 30, 2008 and the related statement of activities inception (June 15, 2007 to September 30, 2008). These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCGCD at September 30, 2008 and the results of its operations for the period then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2009, on our consideration of McLennan County Groundwater Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on such financial statements taken as a whole. The supplementary information included is presented for the purpose of additional analysis and, although not required for a fair presentation of its financial position, results of its operations and cash flows, was subjected to the audit procedures applied in the audit of the financial statements. In our opinion, the supplementary information is fairly presented, in all material respects, in relation to the financial statements taken as whole.



January 7, 2009
Belton, Texas

**MCLENNAN COUNTY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

ASSETS:

CURRENT ASSETS

Petty cash	\$	98	
Operating account		118,851	
Accounts receivable		<u>28,282</u>	
Total Current Assets			\$ 147,231

FIXED ASSETS

Furniture & Equipment		<u>744</u>	
		744	
Accumulated Depreciation- Furniture and Equipment		<u>(372)</u>	
Total Furniture and Equipment			<u>372</u>

TOTAL ASSETS

\$ 147,603

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Note Payable - McLennan County	\$	<u>50,000</u>	
Total Current Liabilities			<u>\$ 50,000</u>
Total Liabilities			\$ 50,000

NET ASSETS

Net Assets - Unrestricted		<u>97,603</u>	
Total Net Assets			<u>97,603</u>

TOTAL LIABILITIES AND UNRESTRICTED ASSETS

\$ 147,603

The accompanying notes to the financial statements are an integral part of this statement.
See Independent Auditors' Report.

**MCLENNAN COUNTY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITES AND CHANGE IN NET ASSETS
FOR THE INITIAL PERIOD ENDED SEPTEMBER 30, 2008**

USE OF FUNDS

OPERATIONS

Accounting	\$ 2,570
Advertising	1,502
Contract labor	9,700
Depreciation	372
Education	438
Insurance bond and liability	1,257
Legal fees	84,375
Membership dues	500
Office supplies	871
Postage	214
Software	998
TOTAL USE OF FUNDS -OPERATIONS	<u>102,797</u>
TOTAL USE OF FUNDS	<u>102,797</u>

SOURCES OF FUNDS

OPERATIONS

Production permit fees	66,496
Permit fees	133,000
Interest	904
TOTAL SOURCE OF FUNDS - OPERATIONS	<u>200,400</u>
TOTAL SOURCE OF FUNDS	<u>200,400</u>

CHANGE IN NET ASSETS 97,603

NET ASSET BEGINNING BALANCE -

NET ASSET ENDING BALANCE \$ 97,603

The accompanying notes to the financial statements are an integral part of this statement.
See Independent Auditors' Report.

MCLENNAN COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements September 30, 2008

I. The Reporting Entity

McLennan County Groundwater Conservation District (District) was formed on June 15, 2007. The creation of the District is under Article III and Section 59, Article XVI, Texas Constitution.

The District is governed by a five Board of Directors, which are appointed by the McLennan County Commissioners. .

II. Summary of Significant Accounting Policies

Basis of Accounting

Basis of accounting refers to the period when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accrual basis of accounting is used for the Governmental Fund Type. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable, and expenditures in the accounting period in which the fund liability is incurred.

Budgeting

An official budget is adopted by the Board of Directors at the beginning of each fiscal year. The Board approves amendments to the budget as needed throughout the year.

III. Deposits and Investments

The Board has designated one bank as the depository for the District's funds, American Bank of Waco.

The District's cash deposits at September 30, 2008 , were entirely covered by FDIC insurance or by pledged collateral. Deposits were properly secured at the time of the highest combined balance.

The following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Name of bank: American Bank of Waco, TX
- b. The largest cash savings, and time deposit combined account balance was \$131,796, which occurred on September 30, 2008.
- c. Total amount of FDIC coverage available at the balance sheet date and at the date highest balance occurred was \$200,000.

MCLENNAN COUNTY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements September 30, 2008

The Cash deposits held at financial institution can be categorized according to three level of risk. These three levels of risk are:

- Category 1 Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 Deposits which are not collateralized.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 1.

V. Fixed 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 equipment	3

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

No assets were pledged as collateral on September 30, 2008.

Depreciation

Depreciation of fixed assets is calculated primarily on the straight-line and accelerated methods with an estimated useful life of three years.

VI. Litigation

The District has no pending litigation not covered by insurance that would materially affect the financial statements of the District.

VII. Notes Payable

The District entered to a Inter-local service agreement with McLennan County. Because the District needed funds to pay initial startup cost and expenses, the County agreed to pay up to \$130,000. The County initial provided the District with \$50,000. The remaining \$80,000 is available to the District on a per Request for Payment. The District shall reimburse the County, without interest, for all monies expended by no later than March 1, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

BELTON, TX 76513-0808

**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
McLennan County Groundwater Conservation District
Bellmead, TX

We have audited the financial statements of McLennan County Groundwater Conservation District as of and for the year ended September 30, 2008, and have issued our report thereon dated January 7, 2009. 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.

Compliance

As part of obtaining reasonable assurance about whether McLennan County Groundwater Conservation District's financial statements are free of 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Belton, Texas
January 7, 2009

**MCLENNAN COUNTY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES-BUDGET (GAAP) VS ACTUAL
SUPPLEMENTAL SCHEDULE I
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Actual	Budget	Variance (Under)Ove
USE OF FUNDS			
OPERATIONS			
Advertising	\$ 1,502	\$ 25,000	\$ (23,498)
Education	438	-	438
Depreciation	372	-	372
Insurance and bonds	1,257	500	757
Contract labor/ manger salary	9,700	25,000	(15,300)
Membership dues	500	5,000	(4,500)
Mileage reimbursement	-	1,200	(1,200)
Office supplies	871	450	421
Payroll taxes	-	1,913	(1,913)
Postage	214	1,000	(786)
Professional fees	-	-	-
Accounting	\$ 2,570	\$ -	\$ 2,570
Hydrologist	-	27,500	(27,500)
Legal	84,375	60,000	24,375
Total Professional fees	86,945	87,500	(555)
Software	998	-	998
Total Use of Funds- Operations	102,797	147,563	(44,766)
Total Use of Funds	102,797	147,563	(44,766)
SOURCE OF FUNDS			
OPERATIONS			
Production fees	\$ 66,496	\$ 105,271	\$ 38,775
Permit fees	133,000	130,000	(3,000)
Interest	904	-	(904)
Total Source of Funds- Operations	200,400	235,271	(34,871)
Total Source of Funds	200,400	235,271	(34,871)
CHANGE IN NET ASSETS	\$ 97,603	\$ 87,708	\$ 9,895

The accompanying notes to the financial statements are an integral part of this statement.
See Independent Auditors' Report.

MCLENNAN COUNTY GROUNDWATER CONSERVATION DISTRICT

MANAGEMENT LETTER

ON

ACCOUNTING PROCEDURES AND INTERNAL CONTROL STRUCTURE

SEPTEMBER 30, 2008

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

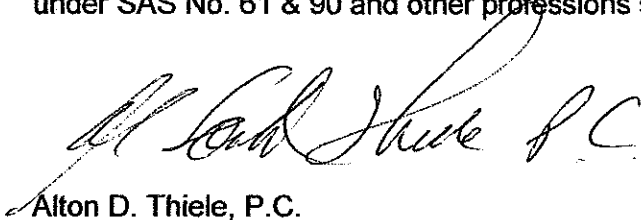
BELTON, TX 76513-0808

Board of Directors
McLennan County Groundwater Conservation District
Bellmead, TX

In planning and performing our audit of the financial statements of the McLennan County Groundwater Conservation District ("the District") for the initial period ended September 30, 2008, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing the opinion on the financial statements and not to provide assurance on internal control

During our audit, no significant deviations from sound internal control procedures were noted. This letter summarizes our comments and suggestions concerning some matters in Exhibit A. This letter does not affect our report dated January 7, 2009, on the financial statements of the District.

As auditors and independent accountants with respect to the District, we are required by Statement on Auditing Standards No. 61 and as amended by 90 ("SAS No. 61 and 90") and other professional standards to communicate certain matters related to the conduct of the audit to the Audit Committee or to those who have responsibility for oversight of the financial reporting process. These matters include information on the scope and results of our audit to assist the Board and its committees in overseeing the financial reporting and disclosure process for which management of the Corporation is responsible. We have enclosed this information in Exhibit B, which includes those matters requiring communications under SAS No. 61 & 90 and other professions standards.



Alton D. Thiele, P.C.
January 7, 2009

Adequate Fund Balance

At September 30, 2008, there were unrestricted funds available of \$118,949 in the operating accounts. It is recommended that 3-4 months operating expenses be in fund balance. This would be around \$50,000 for operating account.

Personnel Files

During the audit, we reviewed the payroll procedures for the District and found that the procedures were adequate in relation to the size of the office.

Security of Funds

The District had adequate coverage of the funds in the operating cash accounts. The District had FDIC coverage up \$200,000.

Fraud Risk Assessment

One of the primary fraud risks is the ever-present risk of misappropriation of assets (theft). The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud..

Having an outside accounting firm assist with the bookkeeping is a good internal control procedures for new entity with limited staff and resources. This is a good tool in risk management.

COMMUNICATIONS REQUIRED BY PROFESSIONAL STANDARDS

1. Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America:

For a description of the level of responsibility assumed by us for the internal control structure, illegal acts and other matters under auditing standards generally accepted in the United States of America, please refer to our letter of engagement dated October 1, 2008, addressed to the Board of Directors of the District.

2. Significant Accounting Policies and Unusual Transactions:

Please refer to Note 2 of the notes of the financial statements.

3. Management's Judgments and Accounting Estimates:

We have evaluated management's processes to derive estimates and have concluded that the processes appear reasonable.

4. Significant Audit Adjustments:

Our criteria for making an adjustment to the financial statements is broadly defined as any adjustment that, whether individually or in aggregate, is either qualitatively material to the financial statements being audited. There were no audit adjustments recorded. There were unrecorded immaterial adjustments.

5. Other Information In Documents Containing Audited Financial Statements:

To our knowledge, the audited financial statements have not been included in any other documents.

6. Disagreements With Management:

To our knowledge, there have been no disagreements with management.

7. Consultation With Other Accountants:

To our knowledge, there were no consultations with other accountants.

COMMUNICATIONS REQUIRED BY PROFESSIONAL STANDARDS (continued)

8. Major Issues Discussed With Management Prior to Retention

No such issues were discussed prior to our reappointment.

9. Difficulties Encountered In Performing the Audit:

We encountered no difficulties in performing the audit.

10. Deficiencies in Internal Control:

No material weaknesses were noted; however, reference is made in the comments and suggestions discussed informally with management and in this letter.

11. Irregularities and Illegal Acts:

The audit is not designed to detect fraud or irregularities. To date, we have not identified any transactions that would meet the definition of fraud as outlined by AICPA SAS 82.

12. Management Advisory Services:

We performed no management advisory services during fiscal 2008.

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The preceding comments and recommendations are intended solely for the information and use of the McLennan County Groundwater Conservation District's management and others within the administration. This restriction is not intended to limit distribution of this report, which is a matter of public record.