

SOUTHERN TRINITY GROUNDWATER
CONSERVATION DISTRICT

FINANCIAL REPORT
and
INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2010

ALTON D. THIELE, P. C.

Certified Public Accountant
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southern Trinity Groundwater Conservation District
Waco, TX 76703

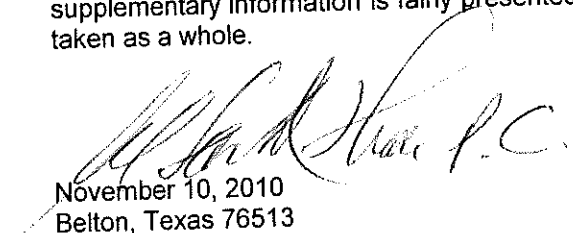
We have audited the accompanying statement of net assets of Southern Trinity Groundwater Conservation District as of September 30, 2010 and the related statements of activities and changes in net assets. These financial statements are the responsibility of the District's management. Our responsibility 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Southern Trinity Groundwater Conservation District as of September 30, 2010 and the results of its activities for the year 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 November 10, 2010, 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, 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 the audit.

Our audit was conducted for the purpose of forming an opinion on the 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 and results of its activities, 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 a whole.



November 10, 2010
Belton, Texas 76513

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**SOUTHERN TRINITY GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING SEPTEMBER 30, 2010**

This section of the Southern Trinity 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, 2010. Please read it in conjunction with the District's financial statements and accounting notes.

FINANCIAL HIGHLIGHTS

- ** The District's total net assets were \$ 274,506.
- ** Cash and investments increased by \$ 88,638.
- ** Liabilities increased by \$ 13,822.
- ** Revenue increased by \$ 30,831.
- ** Expenses increased by \$ 48,740.

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>2010</u>	<u>2009</u>
Current Assets	\$ 288,328	\$ 195,009
Capital Assets	744	744
Accumulated Depreciation	(744)	(744)
Total Liabilities	<u>13,822</u>	<u>0</u>
Net Assets	<u>\$ 274,506</u>	<u>\$ 195,009</u>

**SOUTHERN TRINITY GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING SEPTEMBER 30, 2010**

Operating Activities: The following table summarizes the changes in Operating Income for fiscal year 2010

	<u>2010</u>	<u>2009</u>
Revenue	\$ 223,739	\$192,225
Interest Income	402	1,085
Expenditures excluding depreciation	144,644	95,904
Depreciation	<u>0</u>	<u>0</u>
Net Change in Net Assets	<u>\$ 79,497</u>	<u>\$ 97,406</u>

As reflected above, the District shows an increase in net assets. The 16% increase in revenue was the result of a groundwater production rate increase placed into effect on March 1, 2010 and receipts totaling \$52,000 in Historic Use Production Permits (HUPP) fees, off-set partially by a \$59,550 decrease in annual well fees. The \$48,741 increase in expenditures was primarily the result of; engineering fees associated with the HUPP receipts, an increase in payroll expense from the District Manager position formation, the addition of an intern, the Spatial Mapping special project, off-set partially by a decrease in legal fees. Performance to Budget was \$18,075 off due primarily to a timing difference in the groundwater production rate increase implementation.

CAPITAL ASSETS AND DEBT

The district's only capital assets include computer equipment that was purchased with cash, which has been fully depreciated.

SOUTHERN TRINITY TY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010 and 2009

<u>ASSETS:</u>	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Petty cash	\$ 969	\$ 702
Operating account	262,776	174,405
Accounts receivable	<u>24,583</u>	<u>19,902</u>
Total Current Assets	288,328	195,009
FIXED ASSETS		
Furniture & Equipment	744	744
Accumulated Depreciation	<u>(744)</u>	<u>(744)</u>
Net Book Value	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 288,328</u></u>	<u><u>\$ 195,009</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 13,822	\$ -
Total Current Liabilities	<u>13,822</u>	<u>-</u>
Total Liabilities	13,822	<u>-</u>
 <u>NET ASSETS</u>		
Net Assets - Unrestricted	195,009	97,603
Change in Net Assets	<u>79,497</u>	<u>97,406</u>
Total Net Assets	<u>274,506</u>	<u>195,009</u>
TOTAL LIABILITIES AND UNRESTRICTED ASSETS	<u><u>\$ 288,328</u></u>	<u><u>\$ 195,009</u></u>

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

**SOUTHERN TRINITY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDING SEPTEMBER 30, 2010 AND 2009**

USE OF FUNDS	2010	2009
OPERATIONS	\$ 2,200	\$ 2,198
Audit fees	3,381	1,135
Advertising	24,000	20,400
Contract labor	12,000	-
Manager salary	1,014	-
Payroll taxes	-	372
Depreciation	841	-
Education	996	803
Insurance bond and liability	7,334	-
Intern	4,600	4,350
Accounting fees	34,946	9,275
Engineering/Hydrologist fees	36,684	53,865
Legal fees	1,027	-
Website	7,217	-
Special projects-Spatial mapping	82	2,000
Membership dues	475	-
Mileage reimbursement	3,830	767
Office supplies	1,171	-
Telephone	282	20
Meetings, conventions, seminars	1,756	569
Postage	115	106
Software	693	44
Miscellaneous	144,644	95,904
TOTAL USE OF FUNDS - OPERATIONS	144,644	95,904
TOTAL USE OF FUNDS	144,644	95,904
 SOURCES OF FUNDS		
OPERATIONS	33,250	92,800
Annual well fees	138,489	97,425
Production fees	-	2,000
Well drilling permit fees	52,000	-
HUPP application fees	402	1,085
Interest	224,141	193,310
TOTAL SOURCE OF FUNDS - OPERATIONS	224,141	193,310
TOTAL SOURCE OF FUNDS	224,141	193,310
 CHANGE IN NET ASSETS	79,497	97,406
 NET ASSET BEGINNING BALANCE	195,009	97,603
 NET ASSET ENDING BALANCE	\$ 274,506	\$ 195,009

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

SOUTHERN TRINITY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010

I. The Reporting Entity

Southern Trinity Groundwater Conservation District, formerly known as McLennan County Groundwater District, was formed on July 23, 2007. The creation of the District is under Senate Bill number 1985.

The District is governed by a five member 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, 2010, 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 the highest deposit.

- a. Name of Bank: American Bank of Waco, TX.
- b. The largest cash savings, and time deposit combined account balance was \$264,360, which occurred on September 30, 2010.
- c. The amount of FDIC coverage available at the balance sheet date and at the date highest balance occurred was \$250,000.

SOUTHERN TRINITY GROUNDWATER CONSERVATION DISTRICT

Notes to Financial Statements September 30, 2010

The cash deposits held at a financial institution can be categorized according to three levels 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 the District's cash deposits are classified as Category 1.

IV. 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, 2010.

Depreciation

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

V. Litigation

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

ALTON D. THIELE, P.C.

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**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 the financial statements of Southern Trinity Groundwater Conservation District as of and for the year ended September 30, 2010, and have issued our report thereon dated November 10, 2010. 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

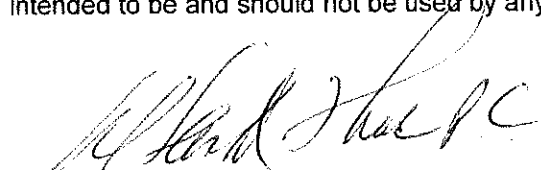
As part of obtaining reasonable assurance about whether Southern Trinity Groundwater Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could 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
November 10, 2010

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTHERN TRINITY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES-BUDGET (GAAP) VS ACTUAL
SUPPLEMENTAL SCHEDULE I
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

USE OF FUNDS	Actual	Budget	Variance (Under)Over
OPERATIONS			
Advertising	\$ 3,381	\$ 2,000	\$ 1,381
Audit Fees	2,200	2,500	(300)
Education	841	3,000	(2,159)
Depreciation	-	-	-
Insurance and bonds	996	900	96
Intern	7,334	15,246	(7,912)
Contract labor/ manger salary	36,000	36,000	-
Meetings , Coventions, Seminars	282	1,000	(718)
Membership dues	82	1,000	(918)
Mileage reimbursement	475	300	175
Miscellaneous	693	1,000	(307)
Office supplies	3,830	500	3,330
Payroll taxes	1,014	-	1,014
Postage	1,756	700	1,056
Professional fees			
Accounting	\$ 4,600	\$ 4,200	\$ 400
Engineering/Hydrologist	34,946	30,000	4,946
Legal	36,684	37,500	(816)
Website	1,027	1,200	(173)
Total Professional fees	77,257	72,900	4,357
Rent/Lease	-	100	(100)
Software	115	-	115
Special Projects-Spatial Mapping	7,217	10,000	(2,783)
Telephone	1,171	720	451
Travel & meetings	-	1,000	(1,000)
Total Use of Funds- Operations	144,644	148,866	(4,222)
Total Use of Funds	144,644	148,866	(4,222)
SOURCE OF FUNDS			
OPERATIONS			
Annual Well Fees	\$ 33,250	\$ 38,000	\$ (4,750)
Production fees	138,489	190,938	(52,449)
Permit fees	-	15,000	(15,000)
HUPP Application Fees	52,000	-	52,000
Total Source of Funds- Operations	223,739	243,938	(20,199)
Total Source of Funds	223,739	243,938	(20,199)
INVESTMENTS			
Interest	\$ 402	\$ 2,500	\$ (2,098)
Total Source of Funds- Investments	402	2,500	(2,098)
Total Source of Funds	224,141	246,438	(22,297)
CHANGE IN NET ASSETS	79,497	97,572	(18,075)
NET ASSETS, BEGINNING	195,009	195,009	-
NET ASSETS, ENDING	\$ 274,506	\$ 292,581	\$ (18,075)

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

SOUTHERN TRINITY GROUNDWATER
CONSERVATION DISTRICT

COMMUNICATIONS OF SIGNIFICANT DEFICIENCIES
AND
MATERIAL WEAKNESSES AS REQUIRED BY
STATEMENT ON AUDITING STANDARDS 115

SEPTEMBER 30, 2010

ALTON D. THIELE, P.C.
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Southern Trinity
Groundwater Conservation District
P O Box 2205
Waco, TX 76703

In planning and performing our audit of the financial statements of the Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2010, 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) and its accounting policies and procedures as a basis for designing our auditing procedures 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.

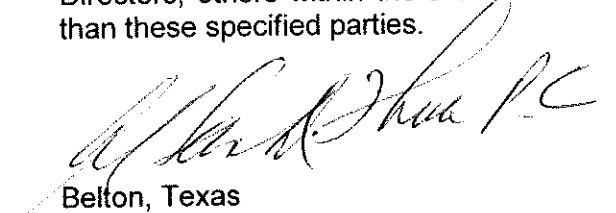
As required by Statement on Auditing Standards No.115, we have issued our *Communication of Significant Deficiencies and Material Weaknesses (Exhibit A)*, including *Communications Required by Professional Standards (Exhibit B)*.

A control 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 significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principals, generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant 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 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 control deficiencies, significant deficiencies, or material weaknesses. We have identified no deficiencies in internal control that we consider to be significant deficiencies.

During our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. These suggestions were discussed with district management.

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



Belton, Texas
November 10, 2010

COMMUNICATIONS OF SIGNICANT DEFICIENCIES

CONTROL DEFICIENCIES

A **control deficiency** 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 misstatements on a timely basis. We consider the following to be a control deficiency.

None noted

MATERIAL WEAKNESSES

A **material weakness** is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. We believe that the following constitute material weaknesses.

None noted

SIGNIFICANT DEFICIENCIES

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. We consider the following deficiencies to be significant deficiencies in internal control:

None noted

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 August 9, 2010, addressed to the Board of Directors.

2. Significant accounting policies and unusual transactions:

There were no new significant accounting policies adopted during 2010, and for a description of significant accounting policies, please refer to the notes to 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 criterion, for making an adjustment to the financial statements, is broadly defined as any adjustment that, whether individually or in aggregate, is qualitatively material to the financial statements being audited. Audits adjustments were proposed and discussed with management.

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 retention.

9. Difficulties encountered in performing the audit:

We encountered no significant difficulties in performing the audit.

10. Deficiencies in internal control:

No material weaknesses were noted; however, reference is made to 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 2010.

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