

SOUTHERN TRINITY GROUNDWATER  
CONSERVATION DISTRICT

FINANCIAL REPORT  
AND  
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2011

# Southern Trinity Groundwater Conservation District

## Table of Contents

|  | Page  |
|--|-------|
| Independent Auditors' Report   | i     |
| Management's Discussion and Analysis   | ii    |
| <br><b>Financial Section</b>   |       |
| Basic Financial Statements:  |       |
| Fund Financial Statements:   |       |
| Statement of Net Assets – Proprietary Fund   | 1     |
| Statement of Revenues, Expenditures, and Change in Net<br>Assets – Proprietary Fund  | 2     |
| Statement of Cash Flows – Proprietary Fund   | 3     |
| Notes to Financial Statements  | 4 - 5 |
| <br><b>Overall Compliance and Internal Control Section</b>   |       |
| Report on Compliance and on Internal Control over<br>Financial Reporting Based on an Audit of the Financial<br>Statements Performed in Accordance with<br><i>Government Auditing Standards</i> | 6     |
| <br><b>Required Supplemental Information</b>   |       |
| Statement of Revenue and Expenditures –<br>Proprietary Fund, Budget (GAAP) and Actual  | 7     |

# ALTON D. THIELE, P. C.

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## INDEPENDENT AUDITORS' REPORT

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

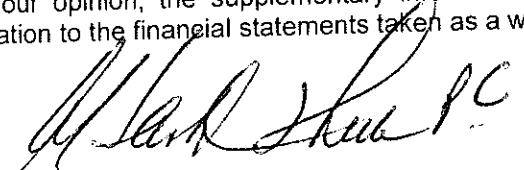
We have audited the accompanying financial statements of the major proprietary fund of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2011 which collectively comprises the District's basic financial statements as listed in the table of contents. 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, 2011 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 December 30, 2011, 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.



December 30, 2011  
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, 2011.

### **Financial Highlights**

\* The assets of the District exceeded the liabilities at the close of the most recent Fiscal year by \$382,161. Of this amount, \$375,699 (unrestricted net assets) may be used to meet the District's on-going obligations to customers and creditors.

- Receivables of the district were \$24,849 and were 15% of the unrestricted net assets.
- Payables of the District were \$9,241, a 49% decrease 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 that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the District is classified as a proprietary fund.

**Proprietary funds:** The District maintains one type of proprietary fund, considered to be its major fund. Enterprise funds are used to report business-type activities. The District uses an Enterprise Fund to account for its well production fees and other permits and fees in the Proprietary Fund financial statements.

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

### **Financial Analysis of the District's Funds**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$382,161 at the close of the most recent fiscal year. A portion of the District's net assets, \$6,462 (6%) 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 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 Assets**  
September 30, 2011

|  | <u>Business-type<br/>Activities</u> |
|--|-------------------------------------|
| Assets:  |                                     |
| Current assets                                     | \$ 385,699                          |
| Capital and other assets                           | 6,462                               |
| Total assets                                       | \$ 392,161                          |
| Liabilities:                                       |                                     |
| Short-term liabilities outstanding                 | \$ 10,000                           |
| Total liabilities                                  | \$ 10,000                           |
| Net assets:  |                                     |
| Invested in capital assets, net of<br>related debt | \$ 6,642                            |
| Unrestricted net assets                            | 375,699                             |
| Total net assets                                   | \$ 382,161                          |

The balance of unrestricted net assets, (67%) of the total net assets, may be used to meet the District's ongoing obligations to customers and creditors.

At the end of the 2010/2011 fiscal year, the District reports favorable balances in all of the categories of net assets.

**Southern Trinity Groundwater Conservation District**  
**Changes in Net Assets**  
**September 30, 2011**

|   | <u>Business-type<br/>Activities</u> |
|---|-------------------------------------|
| Operating revenues:                                     |                                     |
| Charges for services                                    | \$ 243,614                          |
| Other revenues:   |                                     |
| Investment earnings and other<br>miscellaneous revenues | 17,641                              |
| Total revenues  | 261,255                             |
| Expenses:   |                                     |
| Salaries, benefits, and intern                          | (59,236)                            |
| Professional fees                                       | (81,116)                            |
| General and administrative                              | (13,248)                            |
| Total expenses  | (153,600)                           |
| Increase in net assets                                  | 107,654                             |
| Net assets, beginning of the year                       | 274,506                             |
| Transfer to Capital Assets                              | (6,462)                             |
| Net assets, end of the year                             | \$ 375,699                          |

The District's net assets increased \$107,654 during the current fiscal year. Overall, operation cost increased by \$8,956 and with less rain than normal there was a 51% increase 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, 2011, amounts to \$6,462 (net of accumulated depreciation). This investment in Capital assets includes office furniture and equipment. The net increase in the District's investment in capital assets for the current fiscal year was from capital improvements.

**Southern Trinity Groundwater Conservation District**  
**Capital Assets**  
(Net of Depreciation)  
September 30, 2011

|   | <u>Business-type<br/>Activities</u> |
|---|-------------------------------------|
| Furniture and equipment                 | \$ 7,546                            |
| Accumulated depreciation                | <u>(1,084)</u>                      |
| Total (net of accumulated depreciation) | <u>\$ 6,462</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 76701.

## **Financial Section**



**Southern Trinity Groundwater Conservation District**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**September 30, 2011 and 2010**

|  | Business-Type Activities<br>Enterprise Fund<br>Well Production<br>Fund 2011 | Business-Type Activities<br>Enterprise Fund<br>Well Production<br>Fund 2010 |
|--|---|---|
| <b>ASSETS</b>                                |   |   |
| <b>CURRENT ASSETS</b>                        |   |   |
| Cash and Cash Equivalents                    | \$ 360,850.19   | \$ 263,744.96   |
| Accounts Receivable                          | 24,849.31   | 24,583.16   |
| Total Current Assets                         | 385,699.50  | 288,328.12  |
| <b>NON-CURRENT ASSETS</b>                    |   |   |
| Capital Assets                               |   |   |
| Furniture and Equipment                      | 7,545.75  | 743.92  |
| Less Accumulated Depreciation                | (1,084.01)  | (743.92)  |
| Total Capital Assets (net of accum. deprec.) | 6,461.74  | -   |
| Total Non-Current Assets                     | 6,461.74  | -   |
| <b>TOTAL ASSETS</b>                          | \$ 392,161.24   | \$ 288,328.12   |
| <b>LIABILITIES</b>                           |   |   |
| <b>CURRENT LIABILITIES</b>                   |   |   |
| Accounts Payable                             | \$ 9,240.64   | \$ 13,821.94  |
| Accrued Payroll Taxes                        | 760.00  | -   |
| Total Current Liabilities                    | 10,000.64   | 13,821.94   |
| <b>TOTAL LIABILITIES</b>                     | 10,000.64   | 13,821.94   |
| <b>NET ASSETS</b>                            |   |   |
| Invested in Capital (net of related debt)    | 6,461.74  | -   |
| Unrestricted                                 | 375,698.86  | 274,506.18  |
| <b>TOTAL NET ASSETS</b>                      | \$ 382,160.60   | \$ 274,506.18   |

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 ASSETS**  
**PROPRIETARY FUND**

**For the years ended September 30, 2011 and 2010**

|                                     | Business-Type Activities<br>Enterprise Fund<br>Well Production<br>Fund 2011 | Business-Type Activities<br>Enterprise Fund<br>Well Production<br>Fund 2010 |
|-------------------------------------|---|---|
| <b>Operating Revenues:</b>          |   |   |
| Annual Well Fees                    | \$ 35,250.00  | \$ 33,250.00  |
| Well Production Fees                | 206,163.84  | 138,489.02  |
| Well Drilling Permit                | 2,000.00  | -   |
| HUPP Application Fee                | -   | 52,000.00   |
| Well Registration Fee               | 200.00  | -   |
|                                     | <u>243,613.84</u>   | <u>223,739.02</u>   |
| <b>Total Operating Revenue</b>      |   |   |
| <b>Operating Expenses:</b>          |   |   |
| Advertising                         | 4,845.64  | 3,381.14  |
| Auditing                            | 2,625.00  | 2,200.00  |
| Contract Labor                      | -   | 24,000.00   |
| Intern                              | 20,481.86   | 7,334.06  |
| Salaries                            | 36,000.00   | 12,000.00   |
| Payroll Taxes                       | 2,754.00  | 1,013.45  |
| Depreciation                        | 340.09  | -   |
| Education                           | 446.01  | 841.23  |
| Insurance                           | 1,405.71  | 996.28  |
| Professional Fees - Accounting      | 4,485.00  | 4,600.00  |
| Professional Fees - Engineering     | 22,023.93   | 34,945.87   |
| Professional Fees - Legal           | 41,827.21   | 36,684.15   |
| Professional Fees - Lobbying        | 10,155.83   | -   |
| Dues and Fees                       | -   | 7,299.10  |
| General and Administrative          | 6,210.05  | 9,349.10  |
|                                     | <u>153,600.33</u>   | <u>144,644.38</u>   |
| <b>Total Operating Expenses</b>     |   |   |
|                                     | <u>90,013.51</u>  | <u>79,094.64</u>  |
| <b>Operating Income (Loss)</b>      |   |   |
| <b>Nonoperating Revenues</b>        |   |   |
| Miscellaneous Income                | 17,206.00   | -   |
| Interest Income                     | 434.91  | 402.38  |
|                                     | <u>17,640.91</u>  | <u>402.38</u>   |
| <b>Total Nonoperating Revenues</b>  |   |   |
| <b>Change in Net Assets</b>         | <u>107,654.42</u>   | <u>79,497.02</u>  |
| <b>Total Net Assets - Beginning</b> | 274,506.18  | 195,009.16  |
| Transfer to Capital Assets          | (6,461.74)  | -   |
| <b>Total Net Assets - Ending</b>    | <u>\$ 375,698.86</u>  | <u>\$ 274,506.18</u>  |

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, 2011 and 2010**

|   | Business-Type Activities<br>Enterprise Fund<br>Well Production<br>Fund 2011 | Business-Type Activities<br>Enterprise Fund<br>Well Production<br>Fund 2010 |
|---|---|---|
| <u>Cash Flows from Operating Activities</u>   |   |   |
| Cash received from customers  | \$ 261,254.75   | \$ 224,141.40   |
| Cash payments to suppliers  | (121,347.69)  | (123,503.60)  |
| Cash payments to employees  | (36,000.00)   | (12,000.00)   |
| Net Cash Provided by Operating Activities   | 103,907.06  | 88,637.80   |
| <u>Cash Flows from Capital and Related Financing Activities</u>   |   |   |
| Acquisition of capital assets   | (6,801.83)  | -   |
| Net Cash Provided by Capital and Related Financing Activities   | (6,801.83)  | -   |
| Net Increase in Cash and Cash Equivalents   | 97,105.23   | 88,637.80   |
| Cash and cash equivalents - beginning of year   | 263,744.96  | 175,107.16  |
| Cash and cash equivalents - end of year   | \$ 360,850.19   | \$ 263,744.96   |
| <u>Reconciliation of operating income to net cash provided by operating activities:</u>                 |   |   |
| Change in net assets  | \$ 107,654.42   | \$ 79,497.02  |
| Adjustments to reconcile operating increase in net assets to net cash provided by operating activities: |   |   |
| Depreciation expense  | 340.09  | -   |
| (Increase) decrease in accounts receivable  | (266.15)  | (4,681.16)  |
| Increase (decrease) in accounts payable   | (4,581.30)  | 13,821.94   |
| Increase (decrease) in accrued payables   | 760.00  | -   |
| Total adjustments   | (3,747.36)  | 9,140.78  |
| Net Cash Provided by Operating Activities   | \$ 103,907.06   | \$ 88,637.80  |

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, 2011**

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

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 the well production throughout McLennan County.

Proprietary funds distinguish operating revenues and expenditures from nonoperating 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 nonoperating 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 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, 2011, were not entirely covered by FDIC insurance or by pledged collateral. Deposits were only secured to the standard maximum deposit insurance amount of \$250,000 at the time of the highest combined balance.

**Southern Trinity Groundwater Conservation District  
NOTES TO FINANCIAL STATEMENTS**

**September 30, 2011**

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 \$366,160, which occurred on September 21, 2011.
- c. The amount of FDIC coverage available at the balance sheet date and at the date highest balance occurred was \$250,000 leaving \$116,160 exposed to risk.

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 and 3.

Subsequent to the fiscal year end of September 30, 2011, management took steps to secure category 3 deposits by transferring them to a non-interest bearing account thereby having all deposits covered by the FDIC.

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 and field equipment | 3 - 5        |

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, 2011.

Depreciation

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

V. Litigation

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

**Overall Compliance and Internal Control Section**

**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  
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, 2011, and have issued our report thereon dated December 30, 2011. 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**

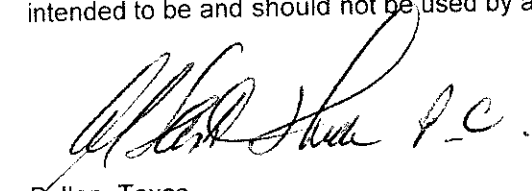
As part of obtaining reasonable assurance about whether Southern Trinity Groundwater Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could 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  
December 30, 2011

**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, 2011**

| <u>USE OF FUNDS</u>   | <u>Actual</u>     | <u>Budget</u>     | <u>Variance<br/>(favorable)<br/>unfavorable</u> |
|---|-------------------|-------------------|---|
| Operations  |                   |                   |   |
| Advertising - Public Notice                                   | 4,845.64          | 7,700.00          | (2,854.36)                                      |
| Audit Fees  | 2,625.00          | 2,650.00          | (25.00)   |
| Depreciation Expense  | 340.09            | 0.00              | 340.09  |
| Education   | 446.01            | 4,120.00          | (3,673.99)                                      |
| Equipment Expense   | 124.46            | 5,640.00          | (5,515.54)                                      |
| Insurance & Bonds   | 1,405.71          | 900.00            | 505.71  |
| Intern/Contract Labor   | 20,481.86         | 20,460.00         | 21.86   |
| Manager Salary  | 36,000.00         | 36,000.00         | 0.00  |
| Membership Dues   | 0.00              | 1,500.00          | (1,500.00)                                      |
| Mileage Reimbursement   | 340.59            | 600.00            | (259.41)  |
| Miscellaneous   | 1,323.48          | 2,400.00          | (1,076.52)                                      |
| Office Expense  | 2,135.06          | 525.00            | 1,610.06  |
| Payroll Taxes   | 2,754.00          | 3,000.00          | (246.00)  |
| Postage   | 674.66            | 1,140.00          | (465.34)  |
| Professional Fees   |                   |                   |   |
| Legislator  | 10,155.83         | 0.00              | 10,155.83                                       |
| Accounting  | 4,485.00          | 4,200.00          | 285.00  |
| Engineering/Hydrologist                                       | 22,023.93         | 16,000.00         | 6,023.93  |
| Legal   | 41,827.21         | 42,000.00         | (172.79)  |
| Web Site  | 0.00              | 1,000.00          | (1,000.00)                                      |
| Rent/Lease  | 0.00              | 100.00            | (100.00)  |
| Software  | 125.00            | 0.00              | 125.00  |
| Travel and Meetings   |                   |                   |   |
| Meetings, Conventions, Seminars                               | 0.00              | 1,000.00          | (1,000.00)                                      |
| Travel  | 0.00              | 1,000.00          | (1,000.00)                                      |
| Telephone   | 1,486.80          | 1,230.00          | 256.80  |
| Total Use of Funds from Operations                            | <u>153,600.33</u> | <u>153,165.00</u> | <u>435.33</u>                                   |
| <br><u>SOURCE OF FUNDS</u>                                    |                   |                   |   |
| Operations  |                   |                   |   |
| Fines & Penalties   | 0.00              | 0.00              | 0.00  |
| Annual Well Fees  | 35,250.00         | 33,250.00         | (2,000.00)                                      |
| Production Fees   | 206,163.84        | 177,087.40        | (29,076.44)                                     |
| Well Drilling Permit Fees                                     | 2,000.00          | 9,000.00          | 7,000.00  |
| Late Ann Well Fees  | 0.00              | 0.00              | 0.00  |
| HUPP Application Fees   | 0.00              | 0.00              | 0.00  |
| Well Registration Fee   | 200.00            | 0.00              | (200.00)  |
| Production/Fee Settlements                                    | 17,206.00         | 0.00              | (17,206.00)                                     |
| Total Operations  | <u>260,819.84</u> | <u>219,337.40</u> | <u>(41,482.44)</u>                              |
| Investments   |                   |                   |   |
| Interest  | 434.91            | 240.00            | (194.91)  |
| Total Investments   | <u>434.91</u>     | <u>240.00</u>     | <u>(194.91)</u>                                 |
| Total Source of Funds   | <u>261,254.75</u> | <u>219,577.40</u> | <u>(41,677.35)</u>                              |
| <br><u>EXCESS (DEFICIT) OF REVENUES OVER<br/>EXPENDITURES</u> | <u>107,654.42</u> | <u>66,412.40</u>  | <u>(41,242.02)</u>                              |

**SOUTHERN TRINITY  
GROUNDWATER CONSERVATION DISTRICT**

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES  
AND MATERIAL WEAKNESSES AS REQUIRED BY  
STATEMENT ON AUDITING STANDARDS NO. 115**

**SEPTEMBER 30, 2011**

***ALTON D. THIELE, P.C.***  
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Southern Trinity Groundwater Conservation District  
420 North 6<sup>th</sup> Street  
Waco, TX 76701

In planning and performing our audit of the financial statements of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Southern Trinity Groundwater Conservation District's internal control over financial reporting (internal control) 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.

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. 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 and was not designed to identify all deficiencies in internal control that might be control deficiencies, significant deficiencies or material weaknesses. We did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies, as defined above.

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  
December 30, 2011

## MATERIAL WEAKNESSES

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in Southern Trinity Groundwater Conservation District's internal control to be material weaknesses:

### Preparation of Basic Financial Statements

We need to provide some historical background to explain why this procedure, or the absence thereof, is of such significance. In the early 1990s, financial fraud disclosure was undermining the reliability of financial statements, as well as the audit firm's "clean" opinions on these statements. There were significant issues with financial statement reliability, as presented to the outside auditors. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) was created in response to the heightened need for greater reliability of financial statements. One of the landmark statements issued by COSO states, in part, that internal control over financial reporting is "... a process, effected by those charged with governance, management and other personnel, designed to provide reasonable assurance about the achievement of the District's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations... the term *financial reporting* relates to the preparation of reliable financial statements that are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP)."

The governing regulatory body(ies), in your case, the Governmental Accounting Standards Board (GASB), has adopted this "Integrated Framework" to represent their expectations regarding financial statements. In this light, the minimum threshold for GAAP-based financial statements, which management (that is, the Board of Directors) is asserting "present fairly, in all material respects, the financial condition ..." is this higher level of preparation and presentation from your staff. These are not the audit firm's financial statements. The only ownership the auditor asserts is over the opinion on your financial statements.

So, with that short synopsis, we need to point out to the Board of Directors that Southern Trinity Groundwater Conservation District does not have personnel with the needed technical skills and experience to properly draft financial statements, including footnote disclosures, as envisioned by the "Integrated Framework" of COSO and adopted by all other oversight, regulatory agencies, including the American Institute of Certified Public Accountants, through its standard-setting committee known as the Auditing Standards Board, referred to as SAS No. 115. Accordingly, the inability to prepare such statements is considered a material weakness for internal control purposes.

We recommend the Board be more detailed in its minutes to reflect the quality of thought and control exercised through its monthly board meetings. Rather than a generic "... approved the financial statements and the accounts payable...", there could be further notations commenting on reviewing the reconciled bank balances. Accounts receivable information would include approving the "Adjustments Report" prepared from the RVS utility billing program and examining the list of Past Due accounts. Such additional detail is designed to indicate a greater level of control and knowledge exercised by the Board and staff during a monthly operating cycle, to partially mitigate the lack of GAAP-compliant financial statements.

Southern Trinity Groundwater Conservation District has limited staff to perform office management and clerical functions to maintain divisions of duties for adequate checks and balances. To compensate for these limitations, the corporation hired an outside accounting firm to receive and review the bank statements and reconciliations. The outside accounting firm also makes accruals and reviews the accounting system as a whole. This is sufficient to provide an adequate amount of separation of duties when coupled with the oversight the Board provides.

## 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 in Southern Trinity Groundwater Conservation District's internal control to be significant deficiencies:

### **Cash Deposits At Risk**

As of the fiscal year end September 30, 2011, the District Cash deposits in American Bank were \$360,329.46. Since this account was an interest bearing account that District management was not aware of at the time, only \$250,000 was covered by the standard maximum deposit insurance amount covered by the FDIC. This left \$110,326.46 of District funds at risk. The District management has subsequently transferred sufficient funds into a non-interest bearing account where there is no maximum coverage by the FDIC.

### **Bank Account Reconciliations**

The District management performs bank account reconciliations and their outside accounting firm also performs reconciliations on the same bank accounts. These reconciliations did not agree. While the amount of discrepancy was immaterial to the financial statements taken as a whole, it was significant in that it displayed a gap in internal control that could lead to bigger discrepancies. If both parties are going to reconcile the bank statements, a good line of communication is needed to ensure that there is agreement between both on the results of these reconciliations.

### **Reporting of Water Pumped**

The District Directors and Management suspected an inconsistency of reporting water pumped by the water entities within the District. The entities within the district read their own meters and submit these figures for subsequent billing by the District. The District has undertaken a study by an outside engineering firm to check the master meters across the district to ensure accuracy. While the results of the study are pending, the District has decided to implement changes in the internal control structure of billing the fee to the water entities within the District. The new system adopted has the water entities reading their meters, applying the rate per one thousand gallons pumped, and sending the resulting fee. The District is also implementing controls to ensure the fees have been applied correctly and District Management will be physically checking all of the meters.

**SOUTHERN TRINITY  
GROUNDWATER CONSERVATION DISTRICT  
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
SEPTEMBER 30, 2011**

# ALTON D. THIELE, P.C.

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

Southern Trinity Groundwater Conservation District  
420 North 6<sup>th</sup> Street  
Waco, TX 76701

We have audited the financial statements of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated October 10, 2011. 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 used by Southern Trinity Groundwater Conservation District were adopted and the application of existing policies was not changed during the fiscal year ended September 30, 2011. 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 estimated useful lives of fixed assets is based on historical experience. We evaluated the key factors and assumptions used to develop the lives in determining that it is reasonable in relation to the financial statements taken as a whole.

### *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 December 30, 2011.

### *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.

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.