

SOUTHERN TRINITY GROUNDWATER  
CONSERVATION DISTRICT  
FINANCIAL REPORT  
AND  
INDEPENDENT AUDITORS' REPORT  
SEPTEMBER 30, 2012

# Southern Trinity Groundwater Conservation District

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# ALTON D. THIELE, P. C.

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## INDEPENDENT AUDITORS' REPORT

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

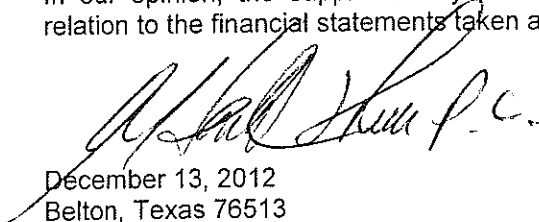
We have audited the accompanying financial statements of the major proprietary fund of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2012 which collectively comprises the District's basic financial statements as listed in the table of contents. 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 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. 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, 2012 and the results of its activities for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012, 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 13, 2012  
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, 2012.

### Financial Highlights

\* The assets of the District exceeded the liabilities at the close of the most recent Fiscal year by \$477,789. These unrestricted net assets may be used to meet the District's on-going obligations to customers and creditors.

- Receivables of the district were \$15,570 and were 3% of the unrestricted net assets.
- Payables of the District were \$12,141, a 31% 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 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, 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 \$477,789 at the close of the most recent fiscal year. Typically, a portion of the District's net assets 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, 2012

	<u>Business-type Activities</u>
Assets:	
Current assets	\$ 484,111
Capital and other assets (net of accumulated depreciation)	<u>5,782</u>
Total assets	<u>\$ 489,892</u>
Liabilities:	
Short-term liabilities outstanding	<u>\$ 12,104</u>
Total liabilities	<u>\$ 12,104</u>
Net assets:	
Invested in capital assets, net of related debt	\$ -0-
Unrestricted net assets	<u>477,789</u>
Total net assets	<u>\$ 477,789</u>

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

At the end of the 2011/2012 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, 2012**

	<u>Business-type Activities</u>
Operating revenues:	
Charges for services	\$ 246,818
Other revenues:	
Investment earnings and other miscellaneous revenues	1,506
Total revenues	248,324
Expenses:	
Salaries, benefits, and intern	69,444
Professional fees	71,413
General and administrative	11,838
Total expenses	152,695
Increase in net assets	95,629
Net assets, beginning of the year	375,699
Transfer from Capital Assets	6,461
Net assets, end of the year	\$ 477,789

The District's net assets increased \$95,629 during the current fiscal year. Overall, operation cost increased by \$4,877 and even with more rain than the previous year, there was a 1% 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, 2012, amounts to \$ 5,782 (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. Previous capital improvements will continue to be depreciated over their useful lives.

### Southern Trinity Groundwater Conservation District

**Capital Assets**  
(Net of Depreciation)  
September 30, 2012

	<u>Business-type Activities</u>
Furniture and equipment	\$ 7,546
Accumulated depreciation	<u>(1,764)</u>
Total (net of accumulated depreciation)	<u>\$ 5,782</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, 2012 and 2011**

	Business-Type Activities Enterprise Fund Well Production Fund 2012	Business-Type Activities Enterprise Fund Well Production Fund 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 240,739.17	\$ 360,850.19
Invested Funds	227,801.33	-
Accounts Receivable	15,570.09	24,849.31
Total Current Assets	484,110.59	385,699.50
<b>NON-CURRENT ASSETS</b>		
Capital Assets		
Furniture and Equipment	7,545.75	7,545.75
Less Accumulated Depreciation	(1,764.19)	(1,084.01)
Total Capital Assets (net of accum. deprec.)	5,781.56	6,461.74
Total Non-Current Assets	5,781.56	6,461.74
<b>TOTAL ASSETS</b>	<b>\$ 489,892.15</b>	<b>\$ 392,161.24</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 12,140.72	\$ 9,240.64
Accrued Payroll Taxes	(37.31)	760.00
Total Current Liabilities	12,103.41	10,000.64
<b>TOTAL LIABILITIES</b>	<b>12,103.41</b>	<b>10,000.64</b>
<b>NET ASSETS</b>		
Invested in Capital Assets (net of related debt)	5,781.56	6,461.74
Unrestricted	484,110.59	375,698.86
<b>TOTAL NET ASSETS</b>	<b>\$ 489,892.15</b>	<b>\$ 382,160.60</b>

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, 2012 and 2011**

	Business-Type Activities Enterprise Fund Well Production Fund 2012	Business-Type Activities Enterprise Fund Well Production Fund 2011
<b>Operating Revenues:</b>		
Annual Well Fees	\$ 33,750.00	\$ 35,250.00
Well Production Fees	209,168.05	206,163.84
Well Drilling Permit	3,000.00	2,000.00
HUPP Application Fee	-	-
Well Registration Fee	900.00	200.00
	246,818.05	243,613.84
<b>Operating Expenses:</b>		
Advertising	2,058.63	4,845.64
Intern	19,920.12	20,481.86
Salaries	45,369.30	36,000.00
Payroll Taxes	4,154.14	2,754.00
Depreciation	680.18	340.09
Education	-	446.01
Insurance	811.24	1,405.71
Professional Fees - Accounting	6,909.05	4,485.00
Professional Fees - Auditing	4,090.00	2,625.00
Professional Fees - Engineering	29,417.56	22,023.93
Professional Fees - Legal	31,006.27	41,827.21
Professional Fees - Lobbying	-	10,155.83
Dues and Fees	624.78	-
General and Administrative	7,654.17	6,210.05
	152,695.44	153,600.33
<b>Total Operating Expenses</b>	<b>152,695.44</b>	<b>153,600.33</b>
<b>Operating Income (Loss)</b>	<b>94,122.61</b>	<b>90,013.51</b>
<b>Nonoperating Revenues</b>		
Miscellaneous Income	-	17,206.00
Interest Income	1,505.53	434.91
	1,505.53	17,640.91
<b>Total Nonoperating Revenues</b>	<b>1,505.53</b>	<b>17,640.91</b>
<b>Change in Net Assets</b>	<b>95,628.14</b>	<b>107,654.42</b>
Total Net Assets - Beginning	375,698.86	274,506.18
Transfer to Capital Assets	12,783.59	(6,461.74)
	488,482.45	268,044.44
<b>Total Net Assets - Ending</b>	<b>\$ 484,110.59</b>	<b>\$ 375,698.86</b>

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, 2012 and 2011**

	Business-Type Activities Enterprise Fund Well Production Fund 2012	Business-Type Activities Enterprise Fund Well Production Fund 2011
<u>Cash Flows from Operating Activities</u>		
Cash received from customers	\$ 248,323.58	\$ 261,254.75
Cash payments to suppliers	(101,045.53)	(121,347.69)
Cash payments to employees	(45,369.30)	(36,000.00)
Net Cash Provided by Operating Activities	101,908.75	103,907.06
<u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of certificates of deposit	(227,801.33)	
Acquisition of capital assets	-	(6,801.83)
Net Cash Used by Capital and Related Financing Activities	(227,801.33)	(6,801.83)
Net (Decrease) Increase in Cash and Cash Equivalents	(125,892.58)	97,105.23
Cash and cash equivalents - beginning of year	360,850.19	263,744.96
Cash and cash equivalents - end of year	\$ 234,957.61	\$ 360,850.19
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Change in net assets	\$ 89,846.58	\$ 107,654.42
Adjustments to reconcile operating increase in net assets to net cash provided by operating activities:		
Depreciation expense	680.18	340.09
(Increase) decrease in accounts receivable	9,279.22	(266.15)
Increase (decrease) in accounts payable	2,900.08	(4,581.30)
Increase (decrease) in accrued payables	(797.31)	760.00
Total adjustments	12,062.17	(3,747.36)
Net Cash Provided by Operating Activities	\$ 101,908.75	\$ 103,907.06

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, 2012**

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.

A five member board of Directors, 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 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 primary depository for the District's operating funds; American Bank of Waco. The secondary bank from which certificates of deposit were purchased is First National Bank of McGregor.

The District's cash deposits at September 30, 2012, were entirely covered by FDIC insurance 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, 2012**

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

- a. Names of Banks: American Bank of Waco, TX; First National Bank of McGregor, TX.
- b. The largest cash savings, and time deposit combined account balance was \$473,073, which occurred on September 17, 2012.
- c. The amount of FDIC coverage available at the balance sheet date was \$250,000 per institution with no funds exposed to risk. However at the date of highest balance, there was a material amount exposed to risk of \$46,073 at American Bank of Waco. Shortly thereafter, a second certificate of deposit was purchased from First National Bank of McGregor which reduced funds to below the FDIC coverage limit.

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 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, 2012.

Depreciation

Depreciation of fixed assets is calculated the straight-line method 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, 2012, and have issued our report thereon dated December 13, 2012. 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**

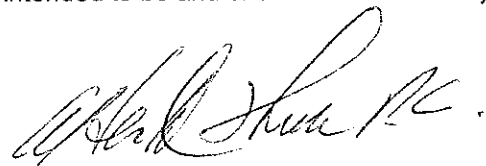
As part of obtaining reasonable assurance about whether Southern Trinity Groundwater Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could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



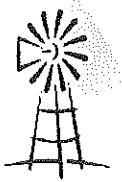
Belton, Texas  
December 13, 2012

**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, 2012

<u>USE OF FUNDS</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance (favorable) unfavorable</u>
Operations			
Advertising - Public Notice	\$ 2,058.63	\$ 3,600.00	(1,541.37)
Audit Fees	4,090.00	4,000.00	90.00
Depreciation Expense	680.18	-	680.18
Education	-	2,000.00	(2,000.00)
Equipment Expense	2,509.24	6,800.00	(4,290.76)
Equipment Lease	-	1,200.00	(1,200.00)
Insurance & Bonds	811.24	650.00	161.24
Intern/Contract Labor	19,920.12	19,176.00	744.12
Manager Salary	45,369.30	36,000.00	9,369.30
Membership Dues	624.78	1,500.00	(875.22)
Mileage Reimbursement	614.58	600.00	14.58
Miscellaneous	347.43	1,800.00	(1,452.57)
Office Expense	2,136.26	525.00	1,611.26
Payroll Taxes	4,154.14	3,000.00	1,154.14
Payroll Bank Expense	14.08	-	14.08
Postage	500.90	780.00	(279.10)
Professional Fees			
Accounting	6,909.05	4,200.00	2,709.05
Engineering/Hydrologist	29,417.56	16,000.00	13,417.56
Legal	31,006.27	42,000.00	(10,993.73)
Rent/Lease	-	100.00	(100.00)
Software	424.14	-	424.14
Travel and Meetings			
Meetings, Conventions, Seminars	46.77	1,000.00	(953.23)
Telephone	1,060.77	1,416.00	(355.23)
Total Use of Funds from Operations	<u>152,695.44</u>	<u>146,347.00</u>	<u>6,348.44</u>
 <u>SOURCE OF FUNDS</u>			
Operations			
Annual Well Fees	33,750.00	35,500.00	1,750.00
Production Fees	209,168.05	200,036.68	(9,131.37)
Well Drilling Permit Fees	3,000.00	4,000.00	1,000.00
Late Ann Well Fees	-	-	0.00
HUPP Application Fees	-	-	0.00
Well Registration Fee	900.00	-	(900.00)
Total Operations	<u>246,818.05</u>	<u>239,536.68</u>	<u>(7,281.37)</u>
Investments			
Interest	1,505.53	420.00	(1,085.53)
Total Investments	<u>1,505.53</u>	<u>420.00</u>	<u>(1,085.53)</u>
Total Source of Funds	<u>248,323.58</u>	<u>239,956.68</u>	<u>(8,366.90)</u>
 <u>EXCESS OF REVENUES OVER EXPENDITURES</u>	<u>\$ 95,628.14</u>	<u>\$ 93,609.68</u>	<u>(2,018.46)</u>



**Southern Trinity Groundwater Conservation District**

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Waco, Texas 76703

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December 13, 2012

Alton D. Thiele, P.C.

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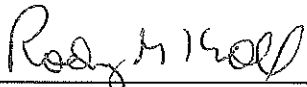
We are providing this letter in connection with your audit of the financial statements of Southern Trinity Groundwater Conservation District (the District) as of September 30, 2012 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the proprietary fund, and cash flows of the District in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.


We confirm, to the best of our knowledge and belief, as of December 13, 2012, the following representations made to you during your audit.

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
  - a) Financial records and related data.
  - b) Minutes of the meetings of the Board of Directors, committees of the Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the District involving—
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, former employees, grantors, regulators, or others.
- 8) The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

- 9) The following, if any, have been properly recorded or disclosed in the financial statements:
  - a) Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the District is contingently liable.
  - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
- 10) There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the District vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
- 11) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 12) There are no—
  - a) Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for reporting on noncompliance.
  - b) Unasserted claims or assessments that our attorney has advised us are probable of assertion and must be disclosed in accordance with *FASB Accounting Standards Codification 450, Contingencies*.
  - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *FASB Accounting Standards Codification 450, Contingencies*.
  - d) Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
- 13) As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 14) The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 15) We have complied with all restrictions on resources and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance.
- 16) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 17) The financial statements properly classify all funds and activities.
- 18) All funds that meet the quantitative criteria in *GASB Statement Nos. 34* and *37* for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 19) Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 20) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.

- 21) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 22) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 23) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signed:   
Title: Rodney Kroll, President

Signed:   
Title: Glen Thurman, Secretary/Treasurer

**SOUTHERN TRINITY  
GROUNDWATER CONSERVATION DISTRICT**

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

**SEPTEMBER 30, 2012**

# *ALTON D. THIELE, P.C.*

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

BELTON, TX 76513-0808

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 the business-type activities and the aggregate remaining fund information of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2012, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the following deficiencies in Southern Trinity Groundwater Conservation District's internal control to be a 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.

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.

### **Revenue Recognition**

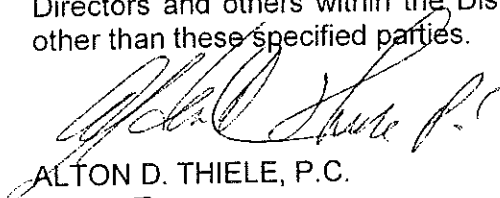
In accrual basis accounting, revenue is recognized when billed to the respective entity. Under the District's current method, revenue is recognized when received since the respective entities calculate and remit the production fee themselves. This involves making a material adjusting journal entry at year end to properly adjust accounts receivable and account for the revenue from the production of the last month of the fiscal year. Until the significant deficiency of the reporting of water pumped is improved, we do not see how proper revenue recognition can be achieved for interim or for final reporting purposes.

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

### **Reporting of Water Pumped**

The District Directors and Management have sought to bring consistency of reporting water pumped by the water entities within the District. Previously, the entities within the district read their own meters and submitted 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 implemented 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 remitting the resulting fee. This honor system has inherent risks the District has deemed as unavoidable. However, the District also implemented controls to ensure the fees have been calculated correctly and subsequent to this report date will be physically checking all of the meters once a year.

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 13, 2012

**SOUTHERN TRINITY  
GROUNDWATER CONSERVATION DISTRICT**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

**SEPTEMBER 30, 2012**



# *ALTON D. THIELE, P.C.*

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

December 13, 2012

To the Board of Directors  
Southern Trinity Groundwater Conservation District  
420 North 6<sup>th</sup> Street  
Waco, TX 76701

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2012. 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 August 19, 2012. 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, 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.

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 public funds exposed to risk in Note III to the financial statements was necessary due to the material amount of exposed funds.

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

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.

#### *Other Audit Findings or Issues*

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.

#### *Management Consultations with Other Independent Accountants*

We have requested certain representations from management that are included in the Management Representation Letter dated December 13, 2012.

#### *Management Representations*

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.

#### *Disagreements with Management*

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.

#### *Corrected and Uncorrected Misstatements*

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

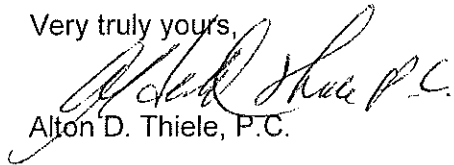
#### *Difficulties Encountered in Performing the Audit*

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.