

SOUTHERN TRINITY GROUNDWATER
CONSERVATION DISTRICT

BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2013

Southern Trinity Groundwater Conservation District

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ALTON D. THIELE, P. C.

Certified Public Accountant
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements for the business-type activities of Southern Trinity Groundwater Conservation District as of and for the years then ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities of Southern Trinity Groundwater Conservation District as of September 30, 2013 and 2012 and the changes in fund net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

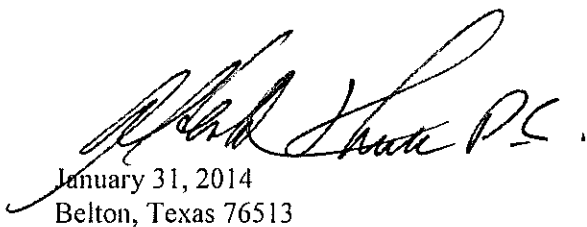
Required Supplementary Information

Accounting principles generally accepted in the United States of America require management's discussion and analysis (MD&A) on pages iii through vi, and the budgetary comparison information on page 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Southern Trinity Groundwater Conservation District as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014, on our consideration of Southern Trinity Groundwater Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



January 31, 2014
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, 2013.

Financial Highlights

- The assets of the District exceeded the liabilities at the close of the most recent Fiscal year by \$451,613. These unrestricted net assets may be used to meet the District's on-going obligations to customers and creditors.
- Receivables of the district were \$15,001 and were 3% of the unrestricted net assets.
- Payables of the District were \$11,628, a 4% 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 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 \$451,613 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, 2013 and 2012

	Business-type Activities <u>2013</u>	Business-Type Activities <u>2012</u>
Assets:		
Current assets	\$ 463,241	\$ 484,111
Capital and other assets (net of accumulated depreciation)	<u>-0-</u>	<u>5,781</u>
Total assets	<u>\$ 463,241</u>	<u>\$ 489,892</u>
Liabilities:		
Short-term liabilities outstanding	<u>\$ 11,628</u>	<u>\$ 12,104</u>
Total liabilities	<u>\$ 11,628</u>	<u>\$ 12,104</u>
Net assets:		
Invested in capital assets, net of related debt	\$ -0-	\$ 5,781
Unrestricted net assets	<u>451,613</u>	<u>472,007</u>
Total net assets	<u>\$ 451,613</u>	<u>\$ 477,788</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 2012/2013 fiscal year, the District reports a favorable balance in all of the categories of net assets.

**Southern Trinity Groundwater Conservation District
Revenues, Expenditures, and Changes in Net Assets
September 30, 2013 and 2012**

	Business-Type Activities <u>2013</u>	Business-Type Activities <u>2012</u>
Operating revenues:		
Service and regulatory fees	\$ 176,900	\$ 246,818
Other revenues:		
Investment earnings and other miscellaneous revenues	1,265	1,506
Total revenues	<u>178,165</u>	<u>248,324</u>
Expenditures:		
Operating:		
Salaries, benefits, and intern	57,428	69,444
Professional fees	68,732	71,413
General and administrative	12,744	11,838
Total operating expenditures	<u>138,904</u>	<u>152,695</u>
Special projects	<u>59,655</u>	<u>-0-</u>
Total expenditures	<u>198,559</u>	<u>152,695</u>
Increase (decrease) in net assets	(20,394)	95,629
Net assets, beginning of the year	477,789	376,699
Change in Capital Assets	<u>(5,782)</u>	<u>6,461</u>
Net assets, end of the year	<u>\$ 451,613</u>	<u>\$ 477,789</u>

The District's net assets decreased \$(20,394) during the current fiscal year. Overall, operation cost decreased by \$(13,777) and with a rate decrease (\$0.04 to \$0.03 per thousand gallons) from the previous year, there was a 29% decrease in revenue from well production.

Capital Asset Administration

Capital assets: The District's investment in capital assets for its business-type activities as of September 30, 2013, amounts to \$ -0- (net of accumulated depreciation). In February of 2012, the District enacted through Board action a Capital Policy of \$25,000. All new capital assets acquired costing less than \$25,000 will be expensed. Previous capital improvements were fully depreciated to comply with the policy.

Southern Trinity Groundwater Conservation District
Capital Assets
(Net of Depreciation)
September 30, 2013

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

Requests for Information

The design of this financial report is to provide a general overview of the District's finances for all those with an interest. Address any questions concerning the information provided in this report or requests for additional financial information to the General Manager of Southern Trinity Groundwater Conservation District, P.O. Box 2205, Waco, Texas 76701.

Financial Section

Southern Trinity Groundwater Conservation District
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2013 and 2012

	<u>Business-Type Activities Enterprise Fund Well Production Fund 2013</u>	<u>Business-Type Activities Enterprise Fund Well Production Fund 2012</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 202,934.30	\$ 240,739.17
Invested Funds	245,305.51	227,801.33
Accounts Receivable	15,000.90	15,570.09
Total Current Assets	463,240.71	484,110.59
NON-CURRENT ASSETS		
Capital Assets		
Furniture and Equipment	7,545.75	7,545.75
Less Accumulated Depreciation	(7,545.75)	(1,764.19)
Total Capital Assets (net of accum. deprec.)	-	5,781.56
Total Non-Current Assets	-	5,781.56
TOTAL ASSETS	\$ 463,240.71	\$ 489,892.15
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 11,627.82	\$ 12,140.72
Accrued Payroll Taxes	-	(37.31)
Total Current Liabilities	11,627.82	12,103.41
TOTAL LIABILITIES	11,627.82	12,103.41
NET ASSETS		
Invested in Capital Assets (net of related debt)	-	5,781.56
Unrestricted	451,612.89	472,007.18
TOTAL NET ASSETS	\$ 451,612.89	\$ 477,788.74

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, 2013 and 2012

	Business-Type Activities Enterprise Fund Well Production Fund 2013	Business-Type Activities Enterprise Fund Well Production Fund 2012
Operating Revenues:		
Annual Well Fees	\$ 7,050.00	\$ 33,750.00
Well Production Fees	147,550.10	209,168.05
Well Drilling Permit	6,000.00	3,000.00
NHUPP Application Fee	12,000.00	-
HUPP Application Fee	1,000.00	-
Well Registration Fee	3,300.00	900.00
	176,900.10	246,818.05
Operating Expenses:		
Advertising	387.43	2,058.63
Intern	18,715.62	19,920.12
Salaries	36,000.00	45,369.30
Payroll Taxes	2,712.00	4,154.14
Depreciation	-	680.18
Education	430.00	-
Insurance	887.96	811.24
Professional Fees - Accounting	5,348.60	6,909.05
Professional Fees - Auditing	4,090.00	4,090.00
Professional Fees - Engineering	16,611.10	29,417.56
Professional Fees - Legal	39,183.32	31,006.27
Professional Fees - Website	3,500.00	-
Dues and Fees	-	624.78
General and Administrative	11,038.54	7,654.17
	138,904.57	152,695.44
Operating Income (Loss)	37,995.53	94,122.61
Nonoperating Revenues (Expenditures)		
Miscellaneous Income	-	-
Interest Income	1,265.63	1,505.53
Special Projects	(59,655.45)	-
	(58,389.82)	1,505.53
Change in Net Assets	(20,394.29)	95,628.14
Total Net Assets - Beginning	477,788.74	382,160.60
Adjustment to prior period	(5,781.56)	-
Total Net Assets - Ending	\$ 451,612.89	\$ 477,788.74

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, 2013 and 2012

	Business-Type Activities Enterprise Fund Well Production Fund 2013	Business-Type Activities Enterprise Fund Well Production Fund 2012
<u>Cash Flows from Operating Activities</u>		
Cash received from customers	\$ 176,900.10	\$ 246,818.05
Cash payments to suppliers	(161,200.79)	(93,758.44)
Cash payments to employees	(36,000.00)	(45,369.30)
Net Cash Provided by Operating Activities	(20,300.69)	107,690.31
<u>Cash Flows from Capital and Related Financing Activities</u>		
Acquisition of certificates of deposit	(17,504.18)	(227,801.33)
Acquisition of capital assets	-	-
Net Cash Used by Capital and Related Financing Activities	(17,504.18)	(227,801.33)
Net (Decrease) Increase in Cash and Cash Equivalents	(37,804.87)	(120,111.02)
Cash and cash equivalents - beginning of year	240,739.17	360,850.19
Cash and cash equivalents - end of year	\$ 202,934.30	\$ 240,739.17
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Change in net assets	\$ (20,394.29)	\$ 95,628.14
Adjustments to reconcile operating increase in net assets to net cash provided by operating activities:		
Depreciation expense	-	680.18
(Increase) decrease in accounts receivable	569.19	9,279.22
Increase (decrease) in accounts payable	(512.90)	2,900.08
Increase (decrease) in accrued payables	37.31	(797.31)
Total adjustments	93.60	12,062.17
Net Cash Provided by Operating Activities	\$ (20,300.69)	\$ 107,690.31

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, 2013

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, with a fiscal year-end balance of \$202,934. The secondary bank from which certificates of deposit were purchased is First National Bank of McGregor, with a fiscal year-end balance of \$245,305.

The District's cash and cash equivalents at September 30, 2013, were entirely covered by FDIC insurance to the standard maximum deposit insurance amount of \$250,000 per institution at the time of the highest combined balance.

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

Southern Trinity Groundwater Conservation District
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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 \$490,258, which occurred on May 17, 2013.
- c. The amount of FDIC coverage available at that time was \$250,000 per institution leaving no funds 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.

IV. Capital Assets

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

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

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized according to policy. Expenditures for maintenance and repairs are charged to expense as incurred. No assets were pledged as collateral on September 30, 2013.

Depreciation

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

V. Litigation

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

VI. Subsequent Events

The District management has evaluated subsequent events through January 31, 2014; the date the financial statements were available to be issued. No change to the financial statements for the fiscal year September 30, 2013 is deemed necessary as a result of this evaluation.

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

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

Board of Directors
Southern Trinity Groundwater Conservation District
Waco, TX

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the business-type activities, of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2013, and have issued our report thereon dated January 31, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

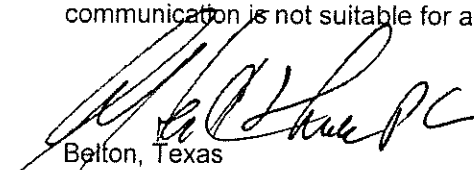
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Belton, Texas

January 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

**STATEMENT OF REVENUE AND EXPENDITURES - PROPRIETARY FUND,
BUDGET (GAAP) AND ACTUAL
For the year ended September 30, 2013**

<u>USE OF FUNDS</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance (favorable) unfavorable</u>
Operations			
Advertising - Public Notice	\$ 387.43	\$ 3,600.00	(3,212.57)
Education	430.00	1,500.00	(1,070.00)
Equipment Expense	2,189.18	6,800.00	(4,610.82)
Equipment Lease	2,298.97	2,520.00	(221.03)
Insurance & Bonds	887.96	650.00	237.96
Intern/Contract Labor	18,715.62	19,176.00	(460.38)
Manager Salary	36,000.00	36,000.00	0.00
Membership Dues	-	1,500.00	(1,500.00)
Mileage Reimbursement	2,942.25	1,200.00	1,742.25
Miscellaneous	597.69	1,800.00	(1,202.31)
Office Expense	1,083.22	5,000.00	(3,916.78)
Payroll Taxes	2,712.00	2,754.00	(42.00)
Postage	547.46	600.00	(52.54)
Professional Fees			
Auditing	4,090.00	4,000.00	90.00
Accounting	5,348.60	7,200.00	(1,851.40)
Engineering/Hydrologist	16,611.11	18,000.00	(1,388.89)
Legal	39,183.32	40,915.86	(1,732.54)
Website	3,500.00	3,500.00	0.00
Rent/Lease	-	100.00	(100.00)
Travel and Meetings	0.00	1,000.00	(1,000.00)
Meetings, Conventions, Seminars	15.00	600.00	(585.00)
Telephone	1,364.77	1,092.00	272.77
Total Use of Funds from Operations	<u>138,904.58</u>	<u>159,507.86</u>	<u>(20,603.28)</u>
<u>SOURCE OF FUNDS</u>			
Operations			
Annual Well Fees	7,050.00	6,850.00	(200.00)
Production Fees	147,550.10	147,037.86	(512.24)
Well Drilling Permit Fees	6,000.00	4,000.00	(2,000.00)
Late Ann Well Fees	-	-	0.00
NHUPP Application Fees	12,000.00	-	(12,000.00)
HUPP Application Fees	1,000.00	-	(1,000.00)
Well Registration Fee	3,300.00	-	(3,300.00)
Total Operations	<u>176,900.10</u>	<u>157,887.86</u>	<u>(19,012.24)</u>
Investments			
Interest	1,265.65	1,620.00	354.35
Total Investments	<u>1,265.65</u>	<u>1,620.00</u>	<u>354.35</u>
Total Source of Funds	<u>178,165.75</u>	<u>159,507.86</u>	<u>(18,657.89)</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	<u>\$ 39,261.17</u>	<u>\$ -</u>	<u>(39,261.17)</u>
(excluding special projects)			
<u>SPECIAL PROJECTS</u>			
Trinity Aquifer Assessment	59,655.45	80,000.00	20,344.55
<u>DEFICIT OF REVENUES OVER EXPENDITURES</u>	<u>(20,394.28)</u>		

**SOUTHERN TRINITY
GROUNDWATER CONSERVATION DISTRICT**

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

SEPTEMBER 30, 2013

ALTON D. THIELE, P.C.

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

January 31, 2014

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

We have audited the basic financial statements of the business-type activities of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2013. 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, 2013. 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, 2013. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the Management Representation Letter dated January 31, 2014.

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. Two of these discussions were requested by management to also be communicated to those charged with governance and are as follows:

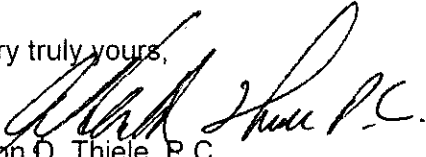
- 1) Reporting of interim financial statements in accrual basis rather than modified cash basis.
- 2) Maintaining the accounts receivable and accounts payable balances according to accrual basis at least quarterly.

Other Matters

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

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

Very truly yours,



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

**SOUTHERN TRINITY
GROUNDWATER CONSERVATION DISTRICT**

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

SEPTEMBER 30, 2013

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 6th Street
Waco, TX 76701

In planning and performing our audit of the basic financial statements of the business-type activities of Southern Trinity Groundwater Conservation District (the District) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented, or detected and corrected, in a timely basis.

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

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



ALTON D. THIELE, P.C.

Belton, Texas

January 31, 2014