

**LOST PINES GROUNDWATER
CONSERVATION DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2012**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
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26
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71
72
73
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75
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81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

LOST PINES GROUNDWATER CONSERVATION DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditors' Report	1
	Management's Discussion and Analysis	3
	<u>Basic Financial Statements</u>	
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Assets	6
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Assets	7
D-3	Statement of Cash Flows	8
	Notes to the Financial Statements	9
	<u>Required Supplementary Information</u>	
G-1	Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual	14
	<u>Other Information Required by GAO</u>	
	Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15

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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION

Independent Auditors' Report

Board of Directors
Lost Pines Groundwater Conservation District
Smithville, Texas

We have audited the accompanying financial statements of the proprietary activity of Lost Pines Groundwater Conservation District (the "District") as of and for the year ended December 31, 2012, which collectively comprise 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 respective financial position of Lost Pines Groundwater Conservation District as of December 31, 2012, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, on our consideration of the 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 not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Our audit was performed for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The accompanying schedule of revenues, expenses, and changes in net assets – budget to actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Singleton, Clark & Company, PC

Singleton, Clark & Company, PC
Austin, Texas

June 27, 2013

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LOST PINES GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Lost Pines Groundwater Conservation District is presenting the following Management's Discussion and Analysis section in order to provide an overall review of the District's financial activities for the year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the financial statements in order to enhance their understanding of the District's financial performance.

Financial Highlights

- Operating revenues were reported at \$699,657 for the year, a decrease of \$150,099, or 17.7%, from calendar year 2011.
- Operating expenses were reported at \$676,607 for the year, an increase of \$127,222, or 23.2% from calendar year 2011.
- The District's total net assets increased during the year by \$23,128, or 2.4%.

General Information about Lost Pines Groundwater Conservation District

The District was temporarily created by Senate Bill No. 1911, effective September 1, 1999, and operated under Texas Water Code Chapter 36. Later, House Bill 2432 authorized a public election in which the District was made permanent.

Rates

The District charges a user fee to all water suppliers in the District. The fee during calendar year 2012 was \$0.12 per 1,000 gallons of water for all nonexempt wells and \$.05 per 1,000 gallons for water exported by suppliers. Water suppliers are billed monthly for the previous month's usage.

District Financial Analysis

The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District.

The Table I on the following page presents a summary of the District's Statement of Net Assets.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents all of the revenues and expenses of the District, regardless of when those revenues and expenses were received or paid in cash. This statement also shows whether the District's net assets increased or decreased during the year as a result of operating and non-operating items.

Table II on the following page presents a summary of the District's Statement of Revenues, Expenses, and Changes in Fund Net Assets.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Table I presents a summary of the Statement of Net Assets:

Table I
Lost Pines Groundwater Conservation District
Net Assets

	2012	2011	Change
ASSETS			
Current assets	\$ 1,049,379	\$ 1,034,207	\$ 15,172
Capital and non-current assets	32,566	33,539	(973)
Total assets	<u>\$ 1,081,945</u>	<u>\$ 1,067,746</u>	<u>\$ 14,199</u>
LIABILITIES			
Current liabilities	\$ 88,318	\$ 97,247	\$ (8,929)
Total liabilities	<u>88,318</u>	<u>97,247</u>	<u>(8,929)</u>
NET ASSETS			
Invested in capital assets, net of related debt	32,566	33,539	(973)
Unrestricted	961,061	936,960	24,101
Total net assets	<u>\$ 993,627</u>	<u>\$ 970,499</u>	<u>\$ 23,128</u>

Table II presents a summary of the Statement of Revenues, Expenses, and Changes in Fund Net Assets:

Table II
Lost Pines Groundwater Conservation District
Statement of Revenues, Expenses, and Changes in Fund Net Assets

	2012	2011	Change
REVENUES			
Charges for water services	\$ 695,636	\$ 847,268	\$ (151,632)
Other revenues	4,021	2,488	1,533
Total revenues	<u>699,657</u>	<u>849,756</u>	<u>(150,099)</u>
EXPENSES			
Personnel services - salaries and wages	242,148	214,291	27,857
Purchased professional and technical services	372,211	272,653	99,558
Purchased property services	16,192	15,481	711
Other operating expenses	40,103	41,253	(1,150)
Supplies	5,953	5,707	246
Total Expense	<u>676,607</u>	<u>549,385</u>	<u>127,222</u>
NON-OPERATING REVENUE/EXPENSE			
Investment earnings, net of expense	1,050	695	355
Depreciation expense	(972)	(742)	(230)
Net Non-Operating Revenue/Expense	<u>78</u>	<u>(47)</u>	<u>125</u>
Change in net assets	<u>23,128</u>	<u>300,324</u>	<u>(277,196)</u>
Beginning net assets	<u>970,499</u>	<u>670,175</u>	<u>300,324</u>
Ending net assets	<u>\$ 993,627</u>	<u>\$ 970,499</u>	<u>\$ 23,128</u>

LOST PINES GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

2012 Capital Expenditures

The District added no capital assets in 2012, and no retirements were made. Depreciation expense recorded on assets totaled \$973 for the year.

A summary of the District's capital assets is presented below in Table III.

Table III
Lost Pines Groundwater Conservation District
Capital Assets

	2012	2011	Change
Land	\$ 30,158	\$ 30,158	\$ -
Machinery and equipment	23,804	23,804	-
Total capital assets	53,962	53,962	-
Less accumulated depreciation	(21,396)	(20,423)	(973)
Capital assets, net of depreciation	\$ 32,566	\$ 33,539	\$ (973)

District Contact Information

This financial report is designed to provide our customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at Lost Pines Groundwater Conservation District, 908 N. West Loop 230, Smithville, Texas, 78957, Phone (512) 360-5088.

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PROPRIETARY FUND STATEMENTS

LOST PINES GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 252,381
Investments - Current	738,352
Accounts Receivable-Net of Uncollectible Allowance	<u>58,646</u>
Total Current Assets	<u>1,049,379</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	30,158
Machinery and Equipment	23,804
Accumulated Depreciation - Machinery & Equipment	<u>(21,396)</u>
Total Noncurrent Assets	<u>32,566</u>
Total Assets	<u>1,081,945</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	18,018
Customer Deposits	<u>70,300</u>
Total Current Liabilities	<u>88,318</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	32,566
Unrestricted Net Assets	<u>961,061</u>
Total Net Assets	<u>\$ 993,627</u>

The notes to the Financial Statements are an integral part of this statement.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-Type Activities
OPERATING REVENUES:	
Charges for Water Services	\$ 695,636
Other Revenue	4,021
Total Operating Revenues	<u>699,657</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	242,148
Purchased Professional & Technical Services	372,211
Purchased Property Services	16,192
Other Operating Expenses	40,103
Supplies	5,953
Total Operating Expenses	<u>676,607</u>
Operating Income	<u>23,050</u>
NON-OPERATING REVENUE (EXPENSES):	
Investment Earnings	1,050
Depreciation Expense	(972)
Total Non-operating Revenue (Expenses)	<u>78</u>
Change in Net Assets	23,128
Total Net Assets - January 1 (Beginning)	<u>970,499</u>
Total Net Assets - December 31 (Ending)	<u>\$ 993,627</u>

The notes to the Financial Statements are an integral part of this statement.

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LOST PINES GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-Type Activities
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 732,147
Cash Received from Customer Deposits	7,650
Cash Payments to Employees for Services	(242,148)
Cash Payments for Purchased Services	(404,981)
Cash Payments for Other Operating Expenses	(40,103)
Cash Payments for Supplies	<u>(5,953)</u>
Net Cash Provided (used) by Operating Activities	<u>46,612</u>
<u>Cash Flows from Investing Activities</u>	
Purchase of Investment Securities	(125,904)
Interest and Dividends on Investments	1,050
Net Cash Provided (used) by Cash Flows from Investing Activities	<u>(124,854)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(78,242)
Cash and Cash Equivalents at Beginning of the Year:	<u>330,623</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 252,381</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	23,050
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	32,490
Increase (decrease) in Accounts Payable	(16,578)
Increase (decrease) in Customer Deposits	<u>7,650</u>
Net Cash Provided by Operating Activities	<u>\$ 46,612</u>

The notes to the Financial Statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

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LOST PINES GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Lost Pines Groundwater Conservation District (the "District") was created by an act of the Texas legislature with a sole purpose to protect the water supply for the residents of Bastrop and Lee Counties, Texas. The District is governed locally by ten citizens, five from each respective county, who have been appointed by their respective County Commissioners Courts to serve as directors for a term of four years. Their charge is to determine how to best protect the underground aquifer from over-pumping so that there will be enough water for everyone, now and in the future.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for established accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described in the notes that follow.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The District follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 20, 1989.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows, all short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.
2. No allowance for bad debts is made as the District uses the direct write-off method for recording bad debts. Previous history with the District's accounts receivable collections has shown accounts receivable write-offs to be immaterial or not needed. The District experienced no bad debt write-offs during the year.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

3. Fixed assets, which include machinery and equipment, are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated fixed assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation of all fixed assets used by the proprietary fund is charged as a non-operating expense. Accumulated depreciation is reported on the proprietary fund statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. Machinery and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

Machinery & Equipment 3-5 years

4. The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a District's principal ongoing operations. The principal operating revenues of the District are charges to water suppliers within the District. Operating expenses for enterprise funds include administrative expenses, salaries, consulting fees, and depreciation on fixed assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.
5. The District charges a user fee to all water suppliers within the District. The fee was \$0.12 per 1,000 gallons for all nonexempt wells during the year and \$.05 per 1,000 gallons for water exported by suppliers. Billings are rendered and recorded based on actual service rendered with billings made to customers monthly.
6. The District generally does not record inventories of supplies such as consumable maintenance, office and transportation items due to the value of these items on hand at any given date being deemed immaterial.

II. BUDGETARY DATA

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

The General Manager submits to the Board of Directors the proposed budget. The Directors may insert new items or may increase or decrease items of the budget, except items in proposed expenditures fixed by law, but where it increases the total proposed expenditures, it also provides for an increase in the total anticipated revenue to at least equal such total proposed expenditures.

The budget is adopted by a majority vote of the Board of Directors. The General Manager may at any time transfer any unencumbered appropriation balance or portion thereof between general classifications of expenditures. Therefore, expenditures should not exceed appropriations. The Directors may transfer any unencumbered appropriation balance or portion thereof through formal budget amendments. Unencumbered appropriations lapse at year-end.

Budget amounts are as originally adopted prior to the beginning of the year or as amended by the Board of Directors during the year. Annual budgets are prepared for the proprietary fund on the generally accepted accounting principles basis.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

III. DETAILED NOTES ON ENTERPRISE FUND

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act.

During the year, the District maintained excess funds in savings accounts at its depository bank and in TexPool, a local government investment pool. As of December 31, 2012, the balances in savings and checking accounts totaled \$252,381.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. To insure against this risk of loss, the District's contract with its depository bank specifies that the depository bank agrees to cover by corporate surety bond or pledge of approved securities an amount that is equal to funds anticipated to be on deposit from day to day that exceeds the value of FDIC insurance coverage. During the year, the combined values of FDIC insurance and pledged securities were adequate to cover all the District's deposits.
- b. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's investments are held in external investment pools which are not subject to custodial credit risk.
- c. **Credit Risk –** This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for TexPool's Texas Local Government Investment Pool is AAAM.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

- d. Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the District’s investment in external investment pools is less than 60 days.
- e. Foreign Currency Risk – This is the risk that exchange rates will adversely affect the fair value of an investment. The District is not exposed to foreign currency risk.
- f. Concentration of Credit Risk – This is the risk of loss attributed to the magnitude of the District’s investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in securities of a single issuer. Investments issued by the U.S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The District is not exposed to concentration of credit risk.

The District's investments at December 31, 2012, are shown below:

Name	Stated Value	Fair Value
TexPool	\$ 738,352	\$ 738,404
Total Investments	\$ 738,352	\$ 738,404

B. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
Proprietary Activities:				
Land	\$ 30,158	\$ -	\$ -	\$ 30,158
Machinery & Equipment	23,805	-	-	23,805
Totals at Historical Cost	53,963	-	-	49,948
Less Accumulated Depreciation	(20,424)	(973)	-	(21,397)
Fixed Assets, Net	\$ 33,539	\$ (973)	\$ -	\$ 32,566

LOST PINES GROUNDWATER CONSERVATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

C. OPERATING LEASES

The District leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases were \$13,086 for the year ended December 31, 2012. The future minimum lease payments for these leases are as follows:

Year Ended December 31,	Amount
2013	\$ 2,586
<u>2014</u>	<u>431</u>
Total	<u>\$ 3,017</u>

D. NET ASSETS

GASB 34 requires the classification of net assets into three components – invested capital assets (net of related debt), restricted, and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

E. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, error and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

F. LITIGATION

There was currently no pending litigation ongoing for the District at year end.

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REQUIRED SUPPLEMENTARY INFORMATION

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LOST PINES GROUNDWATER CONSERVATION DISTRICT
 SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
 BUDGET VERSUS ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With
	Original	Final		Final Budget Positive or (Negative)
OPERATING REVENUES:				
Charges for Water Services	\$ 630,000	\$ 630,000	\$ 695,636	\$ 65,636
Other Revenue	20,000	20,000	4,021	(15,979)
Total Operating Revenues	<u>650,000</u>	<u>650,000</u>	<u>699,657</u>	<u>49,657</u>
OPERATING EXPENSES:				
Personnel Services-Salaries & Benefits	254,100	254,100	242,148	11,952
Purchased Professional & Tech. Services	305,000	305,000	372,211	(67,211)
Purchased Property Services	16,500	16,500	16,192	308
Other Operating Expenses	38,500	38,500	40,103	(1,603)
Supplies	7,000	7,000	5,953	1,047
Total Operating Expenses	<u>621,100</u>	<u>621,100</u>	<u>676,607</u>	<u>(55,507)</u>
Operating Income (Loss)	<u>28,900</u>	<u>28,900</u>	<u>23,050</u>	<u>(5,850)</u>
NON-OPERATING REVENUES (EXPENSES):				
Investment Earnings	13,500	13,500	1,050	(12,450)
Depreciation	-	-	(972)	(972)
Total Non-Operating Revenue (Expenses)	<u>13,500</u>	<u>13,500</u>	<u>78</u>	<u>(13,422)</u>
Change in Net Assets	42,400	42,400	23,128	(19,272)
Net Assets - January 1 (Beginning)	<u>970,499</u>	<u>970,499</u>	<u>970,499</u>	<u>-</u>
Net Assets - December 31 (Ending)	<u>\$ 1,012,899</u>	<u>\$ 1,012,899</u>	<u>\$ 993,627</u>	<u>\$ (19,272)</u>

The accompanying notes are an integral part of this statement.

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OTHER INFORMATION REQUIRED BY GAO

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

Board of Directors
Lost Pines Groundwater Conservation District
Smithville, Texas

We have audited the financial statements of Lost Pines Groundwater Conservation District (the "District") as of and for the year ended December 31, 2012, and have issued our report thereon dated June 27, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting 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 over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lost Pines 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.

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The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which has been reported in a separate letter dated June 27, 2013 that accompanies this report.

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

Singleton, Clark & Company, PC

Singleton, Clark & Company, PC
Austin, Texas

June 27, 2013

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LOST PINES GROUNDWATER CONSERVATION DISTRICT

2012 AUDIT REPORTING PACKAGE

December 31, 2012

LOST PINES GROUNDWATER CONSERVATION DISTRICT
2012 AUDIT REPORTING PACKAGE
December 31, 2012

Contents

Section I	Required Communications with the Governing Body, Including Internal Control Related Matters
Section II	Summary of Audit Adjustments
Section III	Management Representation Letter

SECTION – I

**Required Communications with the Governing Body,
Including Internal Control Related Matters**



June 27, 2013

To the Board of Directors of
Lost Pines Groundwater Conservation District
Smithville, Texas

We have audited the financial statements of Lost Pines Groundwater Conservation District (hereinafter referred to as the "District") as of and for the year ended December 31, 2012, and have issued our report thereon dated June 27, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 1, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements and preparation of them does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

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 Lost Pines Groundwater Conservation District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 future remaining lives of capital assets is based on management's knowledge and experience about past and current events and assumptions about future events. We evaluated the key factors and assumptions used to develop the future remaining lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive disclosures affecting the financial statements.

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. A listing of these misstatements is provided in Section II of this Audit Reporting Package. Some of the misstatements listed and corrected by management were deemed to be closing entries.

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 June 27, 2013.

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 governmental unit'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 to our retention.

Advisory Comments

- 2012-1 As shown on the Statement of Revenues, Expenses and Changes in Net Assets – Budget versus Actual (page 14 of the Annual Financial Report) actual expenditures for Purchased Professional & Technical Services, Other Operating Expenses, and Depreciation Expense exceeded budgeted amounts for these line items in an amount of \$67,211, \$1,603, and \$972, respectively. The result of this condition is a technical non-compliance with the legally adopted budget. We recommend that Management closely monitor expenditures and amend that appropriations budget during the year when deemed necessary.

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

Very truly yours,

Singleton, Clark & Company PC

Singleton, Clark & Company, PC
Austin, Texas

June 27, 2013

SECTION - II

SUMMARY OF AUDIT ADJUSTMENTS

Client: **40-0006.0 - Lost Pines Groundwater Conservation District**
 Engagement: **Audit 12 - Lost Pines Groundwater Conservation District**
 Period Ending: **12/31/2012**
 Trial Balance: **3600.01 - Annual Trial Balance - 2 Year**
 Workpaper: **3700.01 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		6000.03		
To correct beginning opening balances to agree to the prior year report balances.				
1610	Land		30,158.00	
3900	Retained Earnings			30,158.00
Total			<u>30,158.00</u>	<u>30,158.00</u>
Adjusting Journal Entries JE # 2		4200.03		
To set account receivable balance to actual at year-end based on testing performed.				
4025	Income - User Fees		42,390.57	
1400	A/R - Other			42,390.57
Total			<u>42,390.57</u>	<u>42,390.57</u>
Adjusting Journal Entries JE # 3		5100.04		
To reverse the prior year accounts payable balance.				
2250	Accounts Payable		34,596.98	
7315	Professional Services - Hydro/Geologist			21,429.59
7450	Professional Services - Legal Fees			13,167.39
Total			<u>34,596.98</u>	<u>34,596.98</u>
Adjusting Journal Entries JE # 4		5100.04		
To record accounts payable at 12/31/12.				
7315	Professional Services - Hydro/Geologist		10,531.58	
7450	Professional Services - Legal Fees		6,801.50	
8690	Operating Expense - Registration Fee		345.00	
8768	Operating Expense - Telephone		339.82	
2250	Accounts Payable			18,017.90
Total			<u>18,017.90</u>	<u>18,017.90</u>
Adjusting Journal Entries JE # 5		5100.02		
To write-off immaterial payroll liability balance @ 12/31/12 since no actual liability existed.				
2225	Payroll Liabilities		920.81	
5125	Labor - Admin. Staff			920.81
Total			<u>920.81</u>	<u>920.81</u>
Adjusting Journal Entries JE # 6		4600.06		
To record current year depreciation expense.				
9000	Depreciation Expense		972.49	
1790	Accumulated Depreciation			972.49
Total			<u>972.49</u>	<u>972.49</u>

Client: **40-0006.0 - Lost Pines Groundwater Conservation District**
 Engagement: **Audit 12 - Lost Pines Groundwater Conservation District**
 Period Ending: **12/31/2012**
 Trial Balance: **3600.01 - Annual Trial Balance - 2 Year**
 Workpaper: **3700.01 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 7				
		3800.04		
To reclassify customer deposits coded as a debit to interest income to be classified as customer deposits.				
2280	Customer Deposits		3,300.00	
8795.3	Operating Expense - Travel - Mileage		111.00	
2280	Customer Deposits			111.00
4900	Interest Income			3,300.00
Total			3,411.00	3,411.00

SECTION - III

MANAGEMENT REPRESENTATION LETTER

Lost Pines Groundwater Conservation District
908 N West Loop 230
Smithville, Texas 78957

June 27, 2013

Singleton, Clark & Company, PC
Preston Singleton, CPA
9442 Capital of Texas Highway North
Plaza One - Suite 500
Austin, Texas 78759

Dear Mr. Singleton,

We are providing this letter in connection with your audit of the financial statements of Lost Pines Groundwater Conservation District (the "District") as of December 31, 2012 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the proprietary fund of the District and the respective changes in financial position and cash flows, where applicable, 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 internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of June 27, 2013, 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 and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the District 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 believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity 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.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/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 measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; 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, including legal and contractual provisions for reporting specific activities in separate funds.
12. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
13. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual 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. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
16. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
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. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance commitments and assignments are properly classified and, if applicable, approved.
20. Provisions for uncollectible receivables have been properly identified and recorded.
21. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
22. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
23. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
24. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
25. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

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: General Manager

Signed: _____
Title: Assistant to General Manager