

LOST PINES GROUNDWATER  
CONSERVATION DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2013

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LOST PINES GROUNDWATER CONSERVATION DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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# FINANCIAL SECTION

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# SINGLETON, CLARK & COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION

## INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors  
Lost Pines Groundwater Conservation District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Lost Pines Groundwater Conservation District (the "District") as of and for the year ended December 31, 2013, 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 from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 statements 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 from 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 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 the business-type activities of the District as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* in considering the District's internal control over financial reporting and compliance.

*Singleton, Clark & Company, PC*

Singleton, Clark & Company, PC.  
Cedar Park, Texas

June 6, 2014

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## Management's Discussion and Analysis

As management of the Lost Pines Groundwater Conservation District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2013.

### Financial Highlights

- The assets of the Lost Pines Groundwater Conservation District exceeded its liabilities at the close of the most recent fiscal year by \$1,027,024 (*net position*). Of this amount, \$995,261 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The Lost Pines Groundwater Conservation District's total net position increased by \$33,397 primarily because operating revenues exceeded operating expenses.

### Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Lost Pines Groundwater Conservation District's basic financial statements. The District's basic financial statements consist of two components: 1) fund financial statements and 2) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Lost Pines Groundwater Conservation District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Proprietary Funds.** The Lost Pines Groundwater Conservation District has the option of maintaining two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The District uses an enterprise fund to account for groundwater conservation operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a District's functions. The District is not currently utilizing an internal service fund.

The proprietary fund financial statements provide information for the groundwater conservation operation, which is considered to be major funds of the Lost Pines Groundwater Conservation District.

The basic proprietary fund financial statements can be found on pages 7-9 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 10-15 of this report.

## Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Lost Pines Groundwater Conservation District, assets exceeded liabilities by \$1,027,024 at the close of the most recent fiscal year.

### Lost Pines Groundwater Conservation District's Net Position

	Business- Type Activities 2013	Business- Type Activities 2012	Change
Current & other assets	\$ 1,096,343	\$ 1,049,379	\$ 46,964
Capital assets	31,763	32,566	(803)
Total assets	1,128,106	1,081,945	46,161
Current liabilities	101,082	88,318	12,764
Total liabilities	101,082	88,318	12,764
Net Position			
Net investment in capital assets	31,763	32,566	(803)
Unrestricted	995,261	961,061	34,200
Total net position	\$ 1,027,024	\$ 993,627	\$ 33,397

A small portion of Lost Pines Groundwater Conservation District's net position (3.1%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The District uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of \$995,261 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the District is able to report positive balances in all reported categories of net position for business-type activities. The same situation held true for the prior fiscal year.

The Lost Pines Groundwater Conservation District's overall net position increased by \$33,397 from the prior fiscal year. The reasons for this overall increase are discussed in the following section for business-type activities.

## Lost Pines Groundwater Conservation District's Changes in Net Position

	Business- Type Activities 2013	Business- Type Activities 2012	Change
Revenues:			
Program Revenues:			
Charges for services	\$ 748,509	\$ 695,636	\$ 52,873
Other	4,984	5,071	(87)
Total revenue	753,493	700,707	52,786
Expenses:			
Personnel services	323,964	242,148	81,816
Purchased professional and technical services	328,119	388,403	(60,284)
Other operating expenses	67,210	46,056	21,154
Depreciation expense	803	972	(169)
Total expenses	720,096	677,579	42,517
Increase (decrease) in net position	33,397	23,128	10,269
Net position - beginning	993,627	970,499	23,128
Net position - ending	\$ 1,027,024	\$ 993,627	\$ 33,397

### Financial Analysis of Governmental Funds

As noted earlier, the Lost Pines Groundwater Conservation District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### *Proprietary Funds*

Unrestricted net position of the LPGCD at the end of the year was \$1,027,024. The total growth in net position for both funds was \$33,397. The increase for the LPGCD fund results from an increase in revenues that exceeded the increase in expenditures for the current year.

### Capital Assets and Debt Administration

**Capital assets.** The Lost Pines Groundwater Conservation District's investment in capital assets for its business-type activities as of December 31, 2013, amounts to \$31,763 (net of accumulated depreciation). This investment in capital assets includes land, machinery, equipment, and vehicles. The total decrease in capital assets for the current fiscal year was approximately 2.4%.

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**Lost Pines Groundwater Conservation District's Capital Assets**

	Business-Type Activities 2013	Business-Type Activities 2012	Change
Land	\$ 30,158	\$ 30,158	\$ -
Furniture and Equipment	10,904	23,805	(12,901)
Total	41,062	53,963	(12,901)
Less Accumulated Depreciation	(9,299)	(21,397)	12,098
Capital assets, net of depreciation	\$ 31,763	\$ 32,566	\$ (803)

Additional information on the Lost Pines Groundwater Conservation District's capital assets can be found in Note III.D on pages 15 of this report.

**Long-term Debt.** At the end of the current fiscal year, the Lost Pines Groundwater Conservation District does not have any outstanding debt.

**Economic Factors and Next Year's Budgets and Rates**

The following economic factors currently affect the Lost Pines Groundwater Conservation District and were considered in developing the 2014 fiscal year budget.

- Interest rates are expected to remain at record low levels throughout fiscal year 2014.
- A 2.5% decrease in expenditures was budgeted for fiscal year 2014.

**Requests for Information**

This financial report is designed to provide a general overview of the Lost Pines Groundwater Conservation District finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Lost Pines Groundwater Conservation District, 908 N. West Loop 230, Smithville, Texas 78957, Phone (512) 360-5088.

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FUND BASIS FINANCIAL STATEMENTS

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2013

	Business-Type Activities
	LPGCD
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 156,864
Investments - current	939,038
Accounts receivable, net	441
Total current assets	1,096,343
Noncurrent Assets:	
Land	30,158
Furnishings and equipment	10,904
Accumulated depreciation	(9,299)
Total noncurrent assets	31,763
Total assets	1,128,106
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	43,037
Accrued liabilities	19,245
Customer deposits	38,800
Total liabilities	101,082
<b>NET POSITION</b>	
Net investment in capital assets	31,763
Unrestricted	995,261
Total net position	\$ 1,027,024

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 NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Business-Type Activities</u>
	<u>LPGCD</u>
Operating revenues:	
Charges for services:	
Water sales	\$ 748,509
Miscellaneous revenue	4,191
Total operating revenues	<u>752,700</u>
Operating expenses:	
Personnel services	323,964
Purchased prof. and technical services	328,119
Other operating expenses	67,210
Depreciation	803
Total operating expenses	<u>720,096</u>
Operating income (loss)	32,604
Nonoperating revenues (expenses)	
Investment earnings	793
Total nonoperating revenues (expenses)	<u>793</u>
Change in net position	33,397
Net position-beginning	993,627
Net position-ending	<u>\$ 1,027,024</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, 2013

Business-Type Activities

	LPGCD
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from user charges	\$ 810,905
Payments to suppliers and service providers	(401,810)
Payments to employees for salaries and benefits	(304,719)
Net cash provided by (used for) operating activities	<u>104,376</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of investments	(200,686)
Interest on investments	793
Net cash provided by investing activities	<u>(199,893)</u>
Net increase (decrease) in cash and cash equivalents	(95,517)
Cash and cash equivalents-beginning	<u>252,381</u>
Cash and cash equivalents-ending	<u>\$ 156,864</u>
<b>Reconciliation of operating income (loss) to net cash provided (used for) operating activities:</b>	
Operating income (loss)	\$ 32,604
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	803
(Increase) decrease in accounts receivable	58,205
(Decrease) increase in accounts payable	25,019
(Decrease) increase in accrued liabilities	19,245
(Decrease) increase in customer deposits	(31,500)
Total adjustments	<u>71,772</u>
Net cash provided by (used for) operating activities	<u>\$ 104,376</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, 2013

**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 establishing accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described in the notes that follow.

**B. Basis of presentation – fund financial statements**

The fund financial statements provide information about the government's funds. The emphasis of fund financial statements is on major enterprise funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major enterprise fund:

The *LPGCD fund* accounts for the activities of the groundwater conservation district.

**C. Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

**D. Budgetary information**

**1. Budgetary basis of accounting**

The District follows these procedures in establishing 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.

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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.

***2. Excess of expenditures over appropriations***

For the year ended December 31, 2013, expenditures exceeded appropriations in the depreciation expense line item of the LPGCD fund by \$803.

**E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

***1. Cash and cash equivalents***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

***2. Investments***

Investments for the government are reported at fair value (generally based on quoted market prices) except for positions in Local Government Investment Pools (TexPool) when applicable. In accordance with state law, these investment pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

***3. Inventories and prepaid items***

The District does not report inventories of supplies items due to the unused items being on hand at any given time being deemed immaterial. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

***4. Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year.

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Machinery and equipment	5

***5. Net position flow assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**F. Revenues and expenditures/expenses**

***1. Proprietary funds operating and nonoperating revenues and expenses***

Proprietary funds distinguish *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 proprietary fund’s principal ongoing operations. The principal operating revenues of the LPGWD fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**II. Stewardship, compliance and accountability**

**A. Violations of legal or contractual provisions**

Note I.D.2, on the *Excess of expenditures over appropriations*, describes a budgetary violation that occurred for the year ended December 31, 2013.

**B. Deficit fund equity**

For the year ended December 31, 2013 there were no funds reported with deficit fund equity.

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

**III. Detailed notes on all activities and funds**

**A. Cash deposits with financial institutions**

*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. The government does not have a deposit policy for custodial credit risk. As of December 31, 2013, the government's bank balance was \$173,207 and \$0 of that amount was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging or financial institution's trust department or agent, but not in the government's name.

**B. Investments**

The State Treasurer's Investment Pool (Pool) operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note I.E.2, *Investments*, for a discussion of how the shares in the Pool are valued. The Pool has a credit rating of AAA from Standard & Poor's Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. The Pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state. The government utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

As of December 31, 2013, the government had the following investments:

Investment Type	Maturity Time in Years			
	Less than 1	1-5	6-10	More Than 10
TexPool investment pool	\$ 939,038	\$ -	\$ -	\$ -
Total Investments	\$ 939,038	\$ -	\$ -	\$ -

*Interest rate risk.* In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten months.

*Credit risk.* State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of December 31, 2013, the government's investment in the State Treasurer's investment pool was rated AAA by Standard & Poor's and AAA by Moody's Investors Service.

*Concentration of credit risk.* The government's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the government's total investments. This restriction however does not apply to government investment pools due to the low risk nature of this type of investment.

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

*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.

**C. Receivables**

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is a detail of receivables for the major and nonmajor funds of both the governmental and proprietary funds of the government, including the applicable allowances for uncollectible accounts:

Proprietary Funds:

Receivables	LPGCD	Total Proprietary Funds
Accounts receivable	\$ 441	\$ 441
Net receivables	<u>\$ 441</u>	<u>\$ 441</u>

**D. Capital Assets**

Capital assets activity for the year ended December 31, 2013, was as follows:

**Business-Type Activities:**

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital assets, not being depreciated:				
Land	\$ 30,158	\$ -	\$ -	\$ 30,158
Total capital assets, not being depreciated	<u>30,158</u>	<u>-</u>	<u>-</u>	<u>30,158</u>
Capital assets, being depreciated:				
Machinery, equipment, and vehicles	23,805	-	(12,901)	10,904
Total capital assets, being depreciated	<u>23,805</u>	<u>-</u>	<u>(12,901)</u>	<u>10,904</u>
Less accumulated depreciation for:				
Machinery, equipment, and vehicles	(21,397)	(803)	12,901	(9,299)
Total accumulated depreciation	<u>(21,397)</u>	<u>(803)</u>	<u>12,901</u>	<u>(9,299)</u>
Total capital assets being depreciated, net	2,408	(803)	-	1,605
Business-type activities capital assets, net	<u>\$ 32,566</u>	<u>\$ (803)</u>	<u>\$ -</u>	<u>\$ 31,763</u>

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LOST PINES GROUNDWATER CONSERVATION DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

**E. Accrued liabilities**

Accrued liabilities reported by the District at December 31, 2013, were as follows:

Proprietary Funds:

	LPGCD	Total Proprietary Funds
Accounts payable	\$ 43,037	\$ 43,037
Accrued liabilities	19,245	19,245
Customer deposits	38,800	38,800
Total accrued liabilities	\$ 101,082	\$ 101,082

**F. Risk management**

The District is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2013, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**G. Lease obligations**

*1. Operating lease*

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, 2013. The future minimum lease payments for these leases are as follows:

Year Ending September 30	Lease 1
2014	\$ 431
	\$ 431

**H. Contingencies**

The District is a defendant in a case with Forestar (USA) Real Estate, Inc. which is pending in the 335th Judicial District Court of the State of Texas. Forestar claims damages in excess of \$15 million. The District believes that the claims are without merit and intends to vigorously defend its position. The ultimate outcome of this litigation cannot be presently determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

**I. Subsequent events**

There were no subsequent events that occurred after year end meeting the requirements for disclosure.

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REQUIRED SUPPLEMENTARY INFORMATION

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**LOST PINES GROUNDWATER CONSERVATION DISTRICT**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION-**  
**BUDGET VERSUS ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,036,400	\$ 1,036,400	\$ 748,509	\$ (287,891)
Miscellaneous revenue	20,000	20,000	4,191	(15,809)
Total operating revenues	<u>1,056,400</u>	<u>1,056,400</u>	<u>752,700</u>	<u>(303,700)</u>
<b>OPERATING EXPENSES</b>				
Current:				
Personnel services	345,000	345,000	323,964	21,036
Purchased professional and technical services	430,500	430,500	328,119	102,381
Other operating expenses	68,500	68,500	67,210	1,290
Depreciation expense	-	-	803	(803)
Total Expenditures	<u>844,000</u>	<u>844,000</u>	<u>720,096</u>	<u>123,904</u>
Excess (deficiency) of revenues over expenditures	<u>212,400</u>	<u>212,400</u>	<u>32,604</u>	<u>(179,796)</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>				
Investment earnings	13,750	13,750	793	(12,957)
Total Non-Operating Revenue (Expenses)	<u>13,750</u>	<u>13,750</u>	<u>793</u>	<u>(12,957)</u>
Net Change in Net Position	226,150	226,150	33,397	(192,753)
Net position - beginning	993,627	993,627	993,627	-
Net position - ending	<u>\$ 1,219,777</u>	<u>\$ 1,219,777</u>	<u>\$ 1,027,024</u>	<u>\$ (192,753)</u>

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OTHER SUPPLEMENTARY INFORMATION

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# SINGLETON, CLARK & COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors and Citizens of  
the Lost Pines Groundwater Conservation District:

We have audited, in accordance with the 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 financial statements of the business-type activities of Lost Pines Groundwater Conservation District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Lost Pines Groundwater Conservation District's basic financial statements, and have issued our report thereon dated June 6, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lost Pines Groundwater Conservation 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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**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.

*Singleton, Clark & Company, PC*

Singleton, Clark & Company, PC.  
Cedar Park, Texas

June 6, 2014

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LOST PINES GROUNDWATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the years ended December 31, 2013 and 2012.

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Findings Related to Federal Awards Which are Required to be Reported in Accordance with Section 510(c) of OMB Circular A-133:

No findings or questioned costs required to be reported in accordance with Section 510(c) of OMB Circular A-133 for the years ended December 31, 2013 and 2012.



LOST PINES GROUNDWATER CONSERVATION DISTRICT

*FY2013 AUDIT REPORTING PACKAGE*

DECEMBER 31, 2013

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
*AUDIT REPORTING PACKAGE*  
FOR THE YEAR ENDED DECEMBER 31, 2013

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



SINGLETON, CLARK  
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

June 6, 2014

To the Board of Directors  
Lost Pines Groundwater Conservation District

We have audited the financial statements of the business-type activities of Lost Pines Groundwater Conservation District for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 engagement letter to you dated May 10, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Communication of Significant Audit Related Matters

*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-I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit 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 remaining useful lives of the District's facilities and equipment is based on prior experience and common life spans of the different categories of capital assets. We evaluated the key factors and assumptions used to develop the estimate of the remaining useful lives of facilities and equipment in determining that they are reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly 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 each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 6, 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 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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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 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  
Cedar Park, Texas

June 6, 2014

SECTION - II

SUMMARY OF AUDIT ADJUSTMENTS

Client: **40-0006.0 - Lost Pines Groundwater Conservation District**  
 Engagement: **Audit 13 - Lost Pines Groundwater Conservation District**  
 Period Ending: **12/31/2013**  
 Trial Balance: **3600.01 - Annual Trial Balance - 2 Year**  
 Workpaper: **3700.01 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>		<b>6000.03</b>		
To properly state beginning balances.				
1710	Land		30,158.00	
2280	Customer Deposits		400.00	
3900	Retained Earnings			30,058.00
4025	Income:4025 + User Fees			500.00
<b>Total</b>			<b><u>30,558.00</u></b>	<b><u>30,558.00</u></b>
<b>Adjusting Journal Entries JE # 2</b>		<b>4600</b>		
To remove capital assets that are no longer useful to the District.				
1790	Accumulated Depreciation		12,900.00	
1625.10	Equipment:1625.10 + Computer Equipment			12,900.00
<b>Total</b>			<b><u>12,900.00</u></b>	<b><u>12,900.00</u></b>
<b>Adjusting Journal Entries JE # 3</b>		<b>5100.04</b>		
To reverse the prior year accounts payable balance.				
2250	Other Trade Payables		18,017.90	
7315	Professional Services:7315 + Hydro/Geologist			10,531.58
7450	Professional Services:7450 + Legal Fees			6,801.50
8690	Operating Expense:8690 + Registration Fee			345.00
8768	Operating Expense:8768 + Telephone			339.82
<b>Total</b>			<b><u>18,017.90</u></b>	<b><u>18,017.90</u></b>
<b>Adjusting Journal Entries JE # 4</b>		<b>5100.04</b>		
To record accounts payable at year-end.				
7450	Professional Services:7450 + Legal Fees		43,036.00	
2010	Accounts Payable			43,036.00
<b>Total</b>			<b><u>43,036.00</u></b>	<b><u>43,036.00</u></b>
<b>Adjusting Journal Entries JE # 5</b>		<b>4200.01</b>		
To adjust revenue and receivable amounts based on current year calculated revenue.				
1200	Accounts Receivable		44,558.85	
4025	Income:4025 + User Fees		27,742.36	
1200	Accounts Receivable			27,742.36
1400	Accounts Receivable Other			44,558.85
<b>Total</b>			<b><u>72,301.21</u></b>	<b><u>72,301.21</u></b>
<b>Adjusting Journal Entries JE # 6</b>		<b>4600.03</b>		
To book capital asset depreciation.				
6800	Depreciation Expense - Prop. Fund Types Only		803.25	
1790	Accumulated Depreciation			803.25
<b>Total</b>			<b><u>803.25</u></b>	<b><u>803.25</u></b>

SECTION - III

MANAGEMENT REPRESENTATION LETTER



**Lost Pines Groundwater Conservation District**  
908 NE Loop 230  
Post Office Box 1027  
Smithville, TX 78957  
Tax ID Number 74-2955722

512-360-5088  
FAX: 512-360-5448  
Email: [lpgcd@lostpineswater.org](mailto:lpgcd@lostpineswater.org)  
Web Site: [www.lostpineswater.org](http://www.lostpineswater.org)

**Joe Cooper, General Manager**

June 6, 2014

Singleton, Clark & Company, PC  
9442 Capital of Texas Hwy. N.  
Plaza One, Suite 500  
Austin, Texas 78759

This representation letter is provided in connection with your audit of the financial statements of Lost Pines Groundwater Conservation District, which comprise the respective financial position of the business-type activities as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of June 6, 2014, the following representations made to you during your audit.

#### **Financial Statements**

- 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 acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 4) Significant assumptions we used in making accounting estimates are reasonable.
- 5) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- 6) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. 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.
- 7) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements, if any, is attached to the representation letter.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Guarantees, whether written or oral, under which the city is contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - 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.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

**Government—specific**

- 18) We have made available to you all financial records and related data.
- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

- 20) We have taken timely and appropriate steps to remedy fraud, violations of laws, regulations, contracts, or grant agreements, or abuse if matters such as these have been reported to us.
- 21) We have a process to track the status of audit findings and recommendations if they have been reported to us.
- 22) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether any related recommendations have been implemented.
- 23) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, if any findings have been reported.
- 24) The district has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 25) 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.
- 26) There are no 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.
- 27) 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.
- 28) 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.
- 29) 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.
- 30) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 31) 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.
- 32) The financial statements properly classify all funds and activities.
- 33) 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.
- 34) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 35) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 36) Provisions for uncollectible receivables have been properly identified and recorded.

- 37) 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.
- 38) 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.
- 39) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 40) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 41) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 42) We have appropriately disclosed the district's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 43) 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.

Signature: \_\_\_\_\_  
Title: General Manager

Signature: \_\_\_\_\_  
Title: Office Manager