

LOST PINES GROUNDWATER  
CONSERVATION DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2011

Singleton, Clark & Company, PC  
Certified Public Accountants

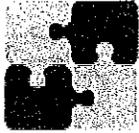
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LOST PINES GROUNDWATER CONSERVATION DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**SINGLETON, CLARK  
& COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2011, 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, 2011, 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 May 9, 2012, 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

May 9, 2012

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LOST PINES GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. 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 \$849,756 for the year, an increase of \$232,014, or 37.6%, from calendar year 2010.
- Operating expenses were reported at \$549,385 for the year, a decrease of \$211,135, or 27.8% from calendar year 2010.
- The District's total net assets increased during the year by \$300,324, or 44.8%.

**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 was \$0.12 per 1,000 gallons of water for all nonexempt wells in 2011 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, 2011

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

**Table I**  
**Lost Pines Groundwater Conservation District**  
**Net Assets**

	2011	2010	Change
<b>ASSETS</b>			
Current assets	\$ 1,034,207	\$ 713,270	\$ 320,937
Capital and non-current assets	33,539	34,281	(742)
Total assets	<u>\$ 1,067,746</u>	<u>\$ 747,551</u>	<u>\$ 320,195</u>
<b>LIABILITIES</b>			
Current liabilities	<u>\$ 97,247</u>	<u>\$ 77,375</u>	<u>\$ 19,872</u>
Total liabilities	<u>97,247</u>	<u>77,375</u>	<u>19,872</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	33,539	34,281	(742)
Unrestricted	<u>936,960</u>	<u>635,894</u>	<u>301,066</u>
Total net assets	<u>\$ 970,499</u>	<u>\$ 670,175</u>	<u>\$ 300,324</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**

	2011	2010	Change
<b>REVENUES</b>			
Charges for water services	\$ 847,268	\$ 616,335	\$ 230,933
Other revenues	<u>2,488</u>	<u>1,407</u>	<u>1,081</u>
Total revenues	<u>849,756</u>	<u>617,742</u>	<u>232,014</u>
<b>EXPENSES</b>			
Personnel services - salaries and wages	214,291	172,601	41,690
Purchased professional and technical services	272,653	502,508	(229,855)
Purchased property services	15,481	14,760	721
Other operating expenses	41,253	62,760	(21,507)
Supplies	<u>5,707</u>	<u>7,891</u>	<u>(2,184)</u>
Total Expense	<u>549,385</u>	<u>760,520</u>	<u>(211,135)</u>
<b>NON-OPERATING REVENUE/EXPENSE</b>			
Investment earnings, net of expense	695	1,126	(431)
Depreciation expense	<u>(742)</u>	<u>(741)</u>	<u>(1)</u>
Net Non-Operating Revenue/Expense	<u>(47)</u>	<u>385</u>	<u>(432)</u>
Change in net assets	<u>300,324</u>	<u>(142,393)</u>	<u>442,717</u>
Beginning net assets	<u>670,175</u>	<u>812,568</u>	<u>(142,393)</u>
Ending net assets	<u>\$ 970,499</u>	<u>\$ 670,175</u>	<u>\$ 300,324</u>

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**2011 Capital Expenditures**

The District added no capital assets in 2011, and no retirements were made. Depreciation expense recorded on assets totaled \$742 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**

	<b>2011</b>	<b>2010</b>	<b>Change</b>
Land	\$ 30,158	\$ 30,158	\$ -
Machinery and equipment	23,804	23,804	-
<b>Total capital assets</b>	<b>53,962</b>	<b>53,962</b>	<b>-</b>
Less accumulated depreciation	(20,423)	(19,681)	(742)
<b>Capital assets, net of depreciation</b>	<b>\$ 33,539</b>	<b>\$ 34,281</b>	<b>\$ (742)</b>

**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, 2011

	Business-Type Activities
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 330,623
Investments - Current	612,448
Accounts Receivable-Net of Uncollectible Allowance	<u>91,136</u>
Total Current Assets	<u>1,034,207</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	30,158
Machinery and Equipment	23,804
Accumulated Depreciation - Machinery & Equipment	<u>(20,423)</u>
Total Noncurrent Assets	<u>33,539</u>
Total Assets	<u>1,067,746</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	34,597
Customer Deposits	<u>62,650</u>
Total Current Liabilities	<u>97,247</u>
<b>NET ASSETS</b>	
Investments in Capital Assets, Net of Debt	33,539
Unrestricted Net Assets	<u>936,960</u>
Total Net Assets	<u>\$ 970,499</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, 2011

	Busines-Type Activities
<b>OPERATING REVENUES:</b>	
Charges for Water Services	\$ 847,268
Other Revenue	2,488
Total Operating Revenues	<u>849,756</u>
<b>OPERATING EXPENSES:</b>	
Personnel Services - Salaries and Wages	214,291
Purchased Professional & Technical Services	272,653
Purchased Property Services	15,481
Other Operating Expenses	41,253
Supplies	5,707
Total Operating Expenses	<u>549,385</u>
Operating Income	<u>300,371</u>
<b>NON-OPERATING REVENUE (EXPENSES):</b>	
Investment Earnings	695
Depreciation Expense	(742)
Total Non-operating Revenue (Expenses)	<u>(47)</u>
Change in Net Assets	300,324
Total Net Assets - January 1 (Beginning)	<u>670,175</u>
Total Net Assets - December 31 (Ending)	<u><u>\$ 970,499</u></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, 2011

	Business-Type Activities
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 845,904
Cash Received from Customer Deposits	3,700
Cash Payments to Employees for Services	(214,291)
Cash Payments for Purchased Services	(271,963)
Cash Payments for Other Operating Expenses	(41,253)
Cash Payments for Supplies	<u>(5,707)</u>
Net Cash Provided (used) by Operating Activities	<u>316,390</u>
<u>Cash Flows from Investing Activities</u>	
Purchase of Investment Securities	(150,044)
Interest and Dividends on Investments	695
Net Cash Provided (used) by Cash Flows from Investing Activities	<u>(149,349)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	167,042
Cash and Cash Equivalents at Beginning of the Year:	<u>163,581</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 330,623</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	300,371
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(3,852)
Increase (decrease) in Accounts Payable	16,171
Increase (decrease) in Customer Deposits	<u>3,700</u>
Net Cash Provided by Operating Activities	<u>\$ 316,390</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011

**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, 2011, the balances in savings and checking accounts totaled \$330,623.

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, 2011

- 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, 2011, are shown below:

<u>Name</u>	<u>Stated Value</u>	<u>Fair Value</u>
TexPool	\$ 612,448	\$ 612,448
Total Investments	<u>\$ 612,448</u>	<u>\$ 612,448</u>

**B. CAPITAL ASSET ACTIVITY**

Capital asset activity for the District for the year ended December 31, 2011, was as follows:

	<b>Balance 12/31/2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 12/31/2011</b>
Proprietary Activities:				
Land	\$ 30,158	\$ -	\$ -	\$ 30,158
Machinery & Equipment	23,805	-	-	23,805
Totals at Historical Cost	<u>53,963</u>	<u>-</u>	<u>-</u>	<u>49,948</u>
Less Accumulated Depreciation	(19,682)	(742)	-	(20,424)
Fixed Assets, Net	<u>\$ 34,281</u>	<u>\$ (742)</u>	<u>\$ -</u>	<u>\$ 33,539</u>

LOST PINES GROUNDWATER CONSERVATION DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**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, 2011. The future minimum lease payments for these leases are as follows:

Year Ended December 31,	Amount
2012	\$ 13,086
2013	2,586
<u>2014</u>	<u>431</u>
Total	<u>\$ 16,103</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, 2011

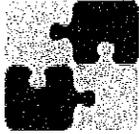
	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>OPERATING REVENUES:</b>				
Charges for Water Services	\$ 635,000	\$ 635,000	\$ 847,268	\$ 212,268
Other Revenue	-	-	2,488	2,488
<b>Total Operating Revenues</b>	<b>635,000</b>	<b>635,000</b>	<b>849,756</b>	<b>214,756</b>
<b>OPERATING EXPENSES:</b>				
Personnel Services-Salaries & Benefits	254,100	243,762	214,291	29,471
Purchased Professional & Tech. Services	289,000	298,318	272,653	25,665
Purchased Property Services	13,000	13,000	15,481	(2,481)
Other Operating Expenses	42,000	43,020	41,253	1,767
Supplies	8,500	8,500	5,707	2,793
<b>Total Operating Expenses</b>	<b>606,600</b>	<b>606,600</b>	<b>549,385</b>	<b>57,215</b>
<b>Operating Income (Loss)</b>	<b>28,400</b>	<b>28,400</b>	<b>300,371</b>	<b>271,971</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Investment Earnings	13,000	13,000	695	(12,305)
Depreciation	-	-	(742)	(742)
<b>Total Non-Operating Revenue (Expenses)</b>	<b>13,000</b>	<b>13,000</b>	<b>(47)</b>	<b>(13,047)</b>
<b>Change in Net Assets</b>	<b>41,400</b>	<b>41,400</b>	<b>300,324</b>	<b>258,924</b>
Net Assets - January 1 (Beginning)	670,175	670,175	670,175	-
Net Assets - December 31 (Ending)	<b>\$ 711,575</b>	<b>\$ 711,575</b>	<b>\$ 970,499</b>	<b>\$ 258,924</b>

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, 2011, and have issued our report thereon dated May 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 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

May 9, 2012

LOST PINES GROUNDWATER CONSERVATION DISTRICT

*2011 AUDIT REPORTING PACKAGE*

December 31, 2011

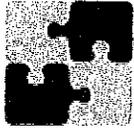
LOST PINES GROUNDWATER CONSERVATION DISTRICT  
*2011 AUDIT REPORTING PACKAGE*  
December 31, 2011

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 --1

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



**SINGLETON, CLARK**  
**& COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

9442 Capital of Texas Hwy. N., Plaza One – Suite 500  
Austin, Texas 78759 Phone (512) 310-5600 www.singletonclark.com

May 9, 2012

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, 2011, and have issued our report thereon dated May 9, 2012. 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 May 4, 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 2011. 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 May 9, 2012.

*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

2011-1 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 of \$15,481 for Purchased Property Services exceeded budgeted amounts for this line item of \$13,000 as of year end by \$2,481.

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  
Austin, Texas  
May 9, 2012

SECTION - II

SUMMARY OF AUDIT ADJUSTMENTS

Client: 40-0006.0 - Lost Pines Groundwater Conservation District  
 Engagement: Audit 11 - Lost Pines Groundwater Conservation District  
 Period Ending: 12/31/2011  
 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 correct opening balances to agree to the PY report.				
1610	Land		30,158.00	
3900	Retained Earnings			30,158.00
<b>Total</b>			<u><u>30,158.00</u></u>	<u><u>30,158.00</u></u>
<b>Adjusting Journal Entries JE # 2</b>		<b>4600.04</b>		
To record depreciation expense for the year.				
9000	Depreciation Expense		742.00	
1790	Accumulated Depreciation			742.00
<b>Total</b>			<u><u>742.00</u></u>	<u><u>742.00</u></u>
<b>Adjusting Journal Entries JE # 3</b>		<b>5100.03</b>		
To reverse prior year Accounts Payable.				
2250	Accounts Payable		18,424.89	
5325	Employee Benefits			800.00
5425	Payroll Tax Expenses			1,800.00
7315	Professional Services - Hydro/Geologist			4,932.84
7450	Professional Services - Legal Fees			7,980.00
7500	Special Projects			1,000.00
8795	Travel			1,400.00
8795.1	Operating Expense - Travel - Lodging			512.05
<b>Total</b>			<u><u>18,424.89</u></u>	<u><u>18,424.89</u></u>
<b>Adjusting Journal Entries JE # 4</b>		<b>4200.02</b>		
To reverse PY accounts receivable user fees.				
4025	Income - User Fees		88,180.36	
1400	A/R - Other			88,180.36
<b>Total</b>			<u><u>88,180.36</u></u>	<u><u>88,180.36</u></u>
<b>Adjusting Journal Entries JE # 5</b>		<b>4200.02</b>		
To record current year accounts receivable amount.				
1200	Accounts Receivable		86,949.42	
4025	Income - User Fees			86,949.42
<b>Total</b>			<u><u>86,949.42</u></u>	<u><u>86,949.42</u></u>
<b>Adjusting Journal Entries JE # 6</b>		<b>5100.03</b>		
To record additional A/P for activity in December 2011 paid in January 2012.				
7315	Professional Services - Hydro/Geologist		21,429.59	
7450	Professional Services - Legal Fees		13,167.39	
2250	Accounts Payable			34,596.98
<b>Total</b>			<u><u>34,596.98</u></u>	<u><u>34,596.98</u></u>

Client: **40-0006.0 - Lost Pines Groundwater Conservation District**  
 Engagement: **Audit 11 - Lost Pines Groundwater Conservation District**  
 Period Ending: **12/31/2011**  
 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 # 7</b>		<b>5100.02</b>		
To record into payroll expense the debit balance accrued in the payroll liabilities as this amount has already been paid out to employees.				
5025	Labor - GM		7,398.68	
2225	Payroll Liabilities			7,398.68
<b>Total</b>			<b>7,398.68</b>	<b>7,398.68</b>
<b>Adjusting Journal Entries JE # 8</b>		<b>4100.05</b>		
To properly state cash/investments at year-end based on the confirmations received.				
8496	Operating Expense - Miscellaneous		1,120.64	
1030	Savings			627.19
1032	TexPool			493.45
<b>Total</b>			<b>1,120.64</b>	<b>1,120.64</b>

SECTION - III

MANAGEMENT REPRESENTATION LETTER

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

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, 2011 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 May 9, 2012, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
  - a. Financial records and related data 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 reserves and designations 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