



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

April 13, 2018

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, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and federal Uniform Guidance, 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 February 14, 2018. 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 the year. We noted no transactions entered into by Lost Pines Groundwater Conservation District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. A listing of all audit adjustments proposed as part of the audit accompanies this document.

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 April 13, 2018^{1st} Draft.

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 Lost Pines Groundwater Conservation District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We applied certain limited procedures to the management's discussion and analysis section of the annual financial report which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 also provided management with a standard framework management's discussion and analysis as a starting point for the preparation of this information. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and 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



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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
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 (the "District"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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*.

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

April 13, 2018

Draft -
For Review Only

LOST PINES GROUNDWATER
CONSERVATION DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

Draft -

For Review Only



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

LOST PINES GROUNDWATER CONSERVATION DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

	Page
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Proprietary Fund Financial Statements:	
Statement of Net Position – Proprietary Funds	7
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	8
Statement of Cash Flows – Proprietary Funds	9
Notes to the Financial Statements	10
Other Reporting	
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual	15
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16
Schedule of Findings and Questioned Costs	18

Draft FINANCIAL SECTION

For Review Only



SINGLETON, CLARK & COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's 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 the Lost Pines Groundwater Conservation District (the "District") as of and for the year ended December 31, 2017, 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 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 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, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section and budgetary comparison information 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2018 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

April 13, 2018

LOST PINES GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

As management of the Lost Pines Groundwater Conservation District (the "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, 2017.

Financial Highlights

- As of year end, the District's net position was \$2,169,192 which reflects a \$728,435 increase from the prior year. Of this ending amount, nearly all of it represents unrestricted net position, \$2,139,034, which is available to meet the District's obligations.
- The District's net position increase for the year was \$728,435 and relates primarily to actual expenses being significantly lower than budgeted amounts for the year.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the 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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Funds. The 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 the only fund of the 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 fund financial statements.

The notes to the financial statements can be found on pages 10-14 of this report.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 District, assets exceeded liabilities by \$2,169,192 at the close of the most recent fiscal year.

Lost Pines Groundwater Conservation District's Net Position

	Business- Type Activities 2017	Business- Type Activities 2016	Change
Current & other assets	\$ 2,168,633	\$ 1,433,485	\$ 735,148
Capital assets	30,158	30,158	-
Total assets	2,198,791	1,463,643	735,148
Current liabilities	29,599	22,886	6,713
Total liabilities	29,599	22,886	6,713
Net position			
Net investment in capital assets	30,158	30,158	-
Unrestricted	2,139,034	1,410,599	728,435
Total net position	\$ 2,169,192	\$ 1,440,757	\$ 728,435

A small portion of District's net position, about 1%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt (if applicable) that was used to acquire those assets. As of year end the District had \$30,158 of land. Accordingly, these assets are not available for future spending.

The remaining balance of \$2,139,034 is unrestricted and may be used to meet the District's ongoing obligations. 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 District's overall net position increased by \$728,435 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

Lost Pines Groundwater Conservation District's Changes in Net Position

	Business- Type Activities 2017	Business- Type Activities 2016	Change
Revenues:			
Program revenues:			
Charges for services	\$ 1,312,374	\$ 1,006,591	\$ 305,783
Other	19,923	6,331	13,592
Total revenue	<u>1,332,297</u>	<u>1,012,922</u>	<u>319,375</u>
Expenses:			
Personnel services	248,205	247,176	1,029
Purchased professional and technical services	303,803	465,130	(161,327)
Other operating expenses	51,854	54,140	(2,286)
Total expenses	<u>603,862</u>	<u>766,446</u>	<u>(162,584)</u>
Increase (decrease) in net position	<u>728,435</u>	<u>246,476</u>	<u>481,959</u>
Net position - beginning	<u>1,440,757</u>	<u>1,194,281</u>	<u>246,476</u>
Net position - ending	<u>\$ 2,169,192</u>	<u>\$ 1,440,757</u>	<u>\$ 728,435</u>

Financial Analysis of Proprietary Funds

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

Proprietary Funds

Unrestricted net position of the District at the end of the year was \$2,139,034. The total change in net position for the fund was an increase of \$728,435. The increase for the Operating Fund resulted primarily from increase in pumping income more than expected.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its business-type activities as of December 31, 2017, amounts to \$30,158 net of accumulated depreciation. This investment in capital assets consists of land.

	Business-type Activities 2017	Business-type Activities 2016	Change
Land	\$ 30,158	\$ 30,158	\$ -
Total Assets	<u>\$ 30,158</u>	<u>\$ 30,158</u>	<u>\$ -</u>

Additional information on the District's capital assets can be found in Note III.C on page 14 of this report.

Long-term Debt. At the end of the current fiscal year, the District did not have any outstanding debt.

Economic Factors and Next Year's Budgets and Rates

There are no significant changes planned to the operations of the District for next year. The adopted budget for the District for fiscal year 2018 is \$1.316 million.

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 District'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, or by calling (512) 360-5088.

Draft
FUND BASIS FINANCIAL STATEMENTS

For Review Only

LOST PINES GROUNDWATER CONSERVATION DISTRICT
 STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2017

	Business-Type Activities
	Operating Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 472,846
Investments	1,662,971
Accounts receivable	32,816
Total current assets	2,168,633
Noncurrent assets:	
Land	30,158
Total noncurrent assets	30,158
Total assets	2,198,791
LIABILITIES	
Current liabilities:	
Accounts payable	26,599
Permit deposits	3,000
Total liabilities	29,599
NET POSITION	
Investment in capital assets	30,158
Unrestricted	2,139,034
Total net position	\$ 2,169,192

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, 2017

	Business-Type Activities
	Operating Fund
Operating revenues:	
Charges for services:	
Pumping charges	\$ 1,312,374
Other revenue	3,115
Total operating revenues	1,315,489
Operating expenses:	
Personnel services	248,205
Purchased professional and technical services	303,803
Other operating expenses	51,854
Total operating expenses	603,862
Operating income (loss)	711,627
Nonoperating revenues (expenses)	
Investment earnings	16,808
Total nonoperating revenues (expenses)	16,808
Change in net position	728,435
Net position-beginning	1,440,757
Net position-ending	\$ 2,169,192

The notes to the financial statements are an integral part of this statement.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Business-Type Activities
	Operating Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from user charges	\$ 1,295,295
Payments to suppliers and service providers	(348,944)
Payments to employees for salaries and benefits	(248,205)
Net cash provided by (used for) operating activities	698,146
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(612,874)
Interest on investments	16,808
Net cash provided by investing activities	(596,066)
Net increase (decrease) in cash and cash equivalents	102,080
Cash and cash equivalents-beginning	370,766
Cash and cash equivalents-ending	\$ 472,846
Reconciliation of operating income (loss) to net cash provided (used for) operating activities:	
Operating income (loss)	\$ 711,627
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
(Increase) decrease in accounts receivable	(20,194)
(Decrease) increase in accounts payable	7,013
(Decrease) increase in customer deposits	(300)
Total adjustments	(13,481)
Net cash provided by (used for) operating activities	\$ 698,146

The notes to the financial statements are an integral part of this statement.

Draft
NOTES TO THE FINANCIAL STATEMENTS

For Review Only

LOST PINES GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 the sole purpose of protecting the water supply for the residents of Bastrop County and Lee County. 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 District's sole fund. The emphasis of fund financial statements is on major funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The District reports the following major enterprise fund:

The *Operating Fund* accounts for the activities of the 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.

Enterprise funds (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, 2017

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.

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

1. Cash and cash equivalents

The District'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 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 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, 2017

As the District 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 estimated useful lives. The district does not have any depreciable asset as of year end.

5. Net position flow assumption

Sometimes the District 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 District’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 Operating 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

There were no expenses reported in excess of appropriations for the year ended December 31, 2017.

B. Deficit net position

For the year ended December 31, 2017, the District did not report deficit net position.

LOST PINES GROUNDWATER CONSERVATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017

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 District's deposits may not be returned to it. For the year ended December 31, 2017, the District's did not have a cash balance that exceeded its coverage (FDIC and/or pledged collateral).

B. Investments

The state treasurer's investment pool (the "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. 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 District 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, 2017, the District had the following investments:

Investment Type	Maturity Time in Years			
	Less than 1	1-5	6-10	More Than 10
TexPool Investment Pool	\$1,662,971	\$ -	\$ -	\$ -
Total Investments	\$1,662,971	\$ -	\$ -	\$ -

Interest rate risk. In accordance with its investment policy, the District 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 District's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of December 31, 2017, the District's investment in the TexPool Investment Pool was rated AAAM by Standard & Poor's.

Concentration of credit risk. The District'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, 2017

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. Capital Assets

Capital assets activity for the year ended December 31, 2017, was as follows:

Business-Type Activities:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated:				
Land	\$ 30,158	\$ -	\$ -	\$ 30,158
Business-type activities capital assets	\$ 30,158	\$ -	\$ -	\$ 30,158

D. 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 2017, 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.

E. Commitments and Contingencies

The District was not involved in any litigation at year end which would require recording/disclosure.

F. Subsequent Events

The District has evaluated subsequent events through April 13, 2018 which represents the date this report was available to be issued; and as a result, no events were noted which require recording and/or disclosure.

Draft OTHER REPORTING

For Review Only

LOST PINES GROUNDWATER CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION-
BUDGET VERSUS ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
OPERATING REVENUES				
Pumping charges	\$ 1,316,380	\$ 1,316,380	\$ 1,312,374	\$ (4,006)
Other revenue	-	-	3,115	3,115
Total operating revenues	1,316,380	1,316,380	1,315,489	(891)
OPERATING EXPENSES				
Current:				
Personnel services	267,025	267,125	248,205	18,920
Purchased professional and technical services	675,000	672,900	303,803	369,097
Other operating expenses	374,200	376,200	51,854	324,346
Total expenditures	1,316,225	1,316,225	603,862	712,363
Excess (deficiency) of revenues over expenditures	155	155	711,627	711,472
NON-OPERATING REVENUE (EXPENSES)				
Investment earnings	600	600	16,808	16,208
Total non-operating revenue (expenses)	600	600	16,808	16,208
Net change in net position	755	755	728,435	727,680
Net position - beginning	1,440,757	1,440,757	1,440,757	-
Net position - ending	<u>\$ 1,441,512</u>	<u>\$ 1,441,512</u>	<u>\$ 2,169,192</u>	<u>\$ 727,680</u>

Draft
For Review Only

LOST PINES GROUNDWATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

FEDERAL AWARDS

Under the guidelines of federal Uniform Guidance, a Single Audit was not required due to expenditures of federal awards being below \$750,000.

Draft

SECTION II – FINANCIAL STATEMENT FINDINGS

FOR REVIEW ONLY

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, 2017 and 2016.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Findings Related to Federal Awards Which are Required to be Reported in Accordance with Federal Uniform Guidance:

Not Applicable.

Client: 40-0006,0 - Lost Pines Groundwater Conservation District
 Engagement: Audit 17 - Lost Pines Groundwater Conservation District
 Period Ending: 12/31/2017
 Trial Balance: 3600.01 - Annual Trial Balance - 2 Year
 Workpaper: 3700.01 - Adjusting Journal Entries Report

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To adjust beginning balances and to properly roll net position.			
1200	Accounts Receivable	26,362.91	
1470	Reverse AR	183,654.66	
1710	Land	30,158.00	
8496	Operating Expense:8496 -+ Miscellaneous	39.00	
1400	Accounts Receivable Other		136,393.57
2010	Accounts Payable		19,586.00
3400	Opening Bal Equity		30,158.00
3900	Retained Earnings		33,362.00
5700	Other Revenue		715.00
Total		220,214.57	220,214.57
Adjusting Journal Entries JE # 2			
Per client, to reverse general journal made at year end involving cash and payroll liabilities.			
1010	Checking - First National Bank	1,014.37	
2225	Payroll Liabilities		1,014.37
Total		1,014.37	1,014.37
Adjusting Journal Entries JE # 3			
To record accounts payable at year end.			
7315	Professional Services:7315 -+ Hydro/Geologist	7,512.60	
2010	Accounts Payable		7,012.60
2280	Customer Deposits		500.00
Total		7,512.60	7,512.60
Adjusting Journal Entries JE # 4			
To adjust ending receivable.			
1200	Accounts Receivable	8,614.70	
1200	Accounts Receivable	11,578.62	
4025	Income:4025 -+ User Fees		8,614.70
4025	Income:4025 -+ User Fees		11,578.62
Total		20,193.32	20,193.32
Adjusting Journal Entries JE # 5			
To record investment income at year end.			
1032	TexPool	1,659.91	
4900	Income:4900 -+ Interest Income		1,659.91
Total		1,659.91	1,659.91



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
Web Site: www.lostpineswater.org

James Totten, General Manager

April 13, 2018

Singleton, Clark & Company, PC
1130 Cottonwood Creek Trail
Building B, Suite 4
Cedar Park, Texas 78613

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, 2017, and the respective changes in financial position and 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 April 13, 2018, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 14, 2018, including our responsibility for oversight of your firm's preparation of the financial statements based on the audited information. We accept ultimate responsibility for the financial statements being prepared in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 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, including those measured at fair value, 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 U.S. GAAP.
- 6) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 7) We believe the effects of uncorrected misstatements, if any, are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit.
- 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 Organization is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

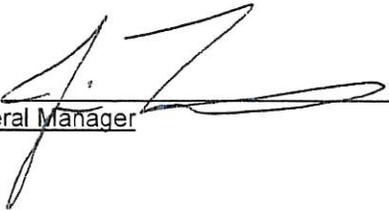
- 10) We have provided you with:
- a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of 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 any assessments we have conducted on 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 Organization and involves—
- Management,
 - Employees who have significant roles in internal control, or
 - 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 Organization's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of 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 Organization's related parties and all the related party relationships and transactions of which we are aware.

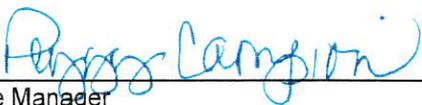
Government-specific

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us, if any.
- 20) We have a process to track the status of audit findings and recommendations, if any have been reported.
- 21) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 22) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report, if any have been reported.
- 23) The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 24) 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 legal and contractual provisions for reporting specific activities in separate funds.

- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 26) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 27) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 28) 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, other than those already reported.
- 29) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 30) The Organization 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.
- 31) The Organization has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 32) The financial statements include all applicable component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 33) The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34 .
- 34) All funds that meet the quantitative criteria in GASBS 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.
- 35) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 36) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 37) Provisions for uncollectible receivables have been properly identified and recorded.
- 38) 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.
- 39) 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.
- 40) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 41) Special and extraordinary items are appropriately classified and reported, if applicable.
- 42) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 43) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

- 44) We have appropriately disclosed the Organization'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 position is available and have determined that net position is properly recognized under the policy.
- 45) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 46) 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

Client: 40-0006.0 - Lost Pines Groundwater Conservation District
 Engagement: Audit 17 - Lost Pines Groundwater Conservation District
 Period Ending: 12/31/2017
 Trial Balance: 3600.01 - Annual Trial Balance - 2 Year
 Workpaper: 3700.01 - Adjusting Journal Entries Report

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To adjust beginning balances and to properly roll net position.			
1200	Accounts Receivable	26,362.91	
1470	Reverse AR	163,654.66	
1710	Land	30,158.00	
8496	Operating Expense:8496 -+ Miscellaneous	39.00	
1400	Accounts Receivable Other		136,393.57
2010	Accounts Payable		19,586.00
3400	Opening Bal Equity		30,158.00
3900	Retained Earnings		33,362.00
5700	Other Revenue		715.00
Total		220,214.57	220,214.57
Adjusting Journal Entries JE # 2			
Per client, to reverse general journal made at year end involving cash and payroll liabilities.			
1010	Checking - First National Bank	1,014.37	
2225	Payroll Liabilities		1,014.37
Total		1,014.37	1,014.37
Adjusting Journal Entries JE # 3			
To record accounts payable at year end.			
7315	Professional Services:7315 -+ Hydro/Geologist	7,512.60	
2010	Accounts Payable		7,012.60
2280	Customer Deposits		500.00
Total		7,512.60	7,512.60
Adjusting Journal Entries JE # 4			
To adjust ending receivable.			
1200	Accounts Receivable	8,614.70	
1200	Accounts Receivable	11,578.62	
4025	Income:4025 -+ User Fees		8,614.70
4025	Income:4025 -+ User Fees		11,578.62
Total		20,193.32	20,193.32
Adjusting Journal Entries JE # 5			
To record investment income at year end.			
1032	TexPool	1,659.91	
4900	Income:4900 -+ Interest Income		1,659.91
Total		1,659.91	1,659.91