

**POST OAK SAVANNAH GROUNDWATER
CONSERVATION DISTRICT**

**FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2011**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management Discussion and Analysis	2-3
Finance Section	
Statement of Net Assets	5
Statement of Revenues, Expenditures, and Change in Unrestricted Net Assets	6
Notes to the Financial Statements	7-13
Required Supplementary Information	
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>	15
Statement of Revenue and Expenditures- Budget to Actual	16

ALTON D. THIELE, P. C.

Certified Public Accountant
312 E. Central Avenue
P.O. Box 808
BELTON, TX 76513-0808

INDEPENDENT AUDITORS' REPORT

Board of Directors
Post Oak Savannah Groundwater Conservation District
Milano, Texas

We have audited the accompanying statement of net assets of Post Oak Savannah Groundwater Conservation District (the District) as of December 31, 2011 and the related statement of revenues, expenditures, and change in unrestricted net assets for the year then ended. 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.

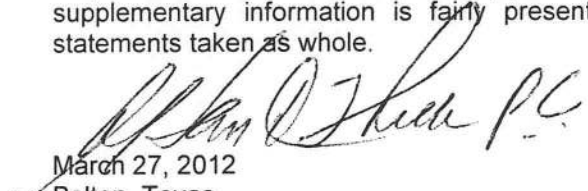
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 the 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 the District as of December 31, 2011 and the results of its operations for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012 on our consideration of Post Oak Savannah Groundwater Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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.

The Management's Discussion and Analysis on pages 2 and 3 is not a required part of the 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 the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included is presented for the purpose of additional analysis and, although not required for a fair presentation of its statement of net assets and results of its activities, was subjected to the audit procedures applied in the audit of the financial statements. In our opinion, the supplementary information is fairly presented, in all material respects, in relation to the financial statements taken as whole.



March 27, 2012
Belton, Texas

**POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING DECEMBER 31, 2011**

This section of the Post Oak Savannah Groundwater Conservation District ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on December 31, 2011. Please read it in conjunction with the District's financial statements and accounting notes.

FINANCIAL HIGHLIGHTS

- ** The District's total net assets were \$ 3,105,358.
- ** Cash and investments decreased by \$ 105,137.
- ** Liabilities increased by \$6,235.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The district is a governmental entity and follows the accrual basis of accounting for a single purpose governmental entity. The District is not funded by property tax levies.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the District is classified as a proprietary fund.

Proprietary funds:

The District maintains one type of proprietary fund, considered to be its major fund. Enterprise funds are used to report business-type activities. The District uses an Enterprise Fund to account for its water transport, program services, and permit fees in the Proprietary Fund financial statements.

Notes to the financial statements:

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the proprietary fund financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets	
	Business-type Activities <u>2011</u>
Current Assets	\$ 2,979,707
Capital Assets	213,153
Accumulated Depreciation	<u>(68,623)</u>
Total Assets	<u>\$ 3,124,237</u>
Total Liabilities	\$ 18,879
Invested in Capital Assets Net of Related Debt	213,153
Unrestricted Net Assets	<u>2,892,205</u>
Total Liabilities and Net Assets	<u>\$ 3,124,237</u>

**POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING DECEMBER 31, 2011**

The balance of unrestricted net assets, (93%) of the total net assets, may be used to meet the District's ongoing obligations to the respective entities within the District boundaries.

At the end of the 2011 fiscal year, the District reports favorable balances in the two categories of net assets. Unrestricted net assets decreased substantially due to large disbursements to grant recipients.

Changes in Net Assets

	Business-type Activities <u>2011</u>
Operating Revenues	
Charges for programs, permits, and fees	\$ 1,257,004
Nonoperating Revenues	
Investment earnings	<u>24,170</u>
Total Revenues	<u>\$ 1,281,174</u>
Operating Expenditures	
Expenditures from business-type activity	\$ 1,357,027
Depreciation	<u>20,005</u>
Total Expenditures	<u>\$ 1,377,032</u>
Decrease in Net Assets	\$ (95,858)
Net Assets, beginning of the year	<u>3,201,216</u>
Net Assets, end of the year	<u>\$ 3,105,358</u>

Actual results from operations of the District compared favorable with the budget for the year. Revenue was below budget, however higher expenses generated a deficit of \$ (95,858).

CAPITAL ASSETS AND DEBT

The district purchased in 2003 an office building in Milano, TX for cash and the District has no outstanding liens on the property.

FUTURE EVENTS

In 2006, the District started its conservation and assistance programs. At December 31, 2011, the total of grants awarded since the program's inception is \$4,484,202, of which, \$3,076,661 has been disbursed to the recipients leaving a balance to fund of \$1,407,541.

Item number 11 of the September 13, 2011 Board Minutes indicated approved action for the District to drill two monitoring wells on District property directly behind the District offices. Work is expected to be completed in fiscal 2012.

FINANCE SECTION

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011 AND 2010

	Business-Type Activity Enterprise Fund Water Programs & Transport Fund <u>2011</u>	Business-Type Activity Enterprise Fund Water Programs & Transport Fund <u>2010</u>
ASSETS		
CURRENT ASSETS		
Petty cash	\$ 100	\$ 100
Operating account	9,057	4,709
Tex Pool	25,052	25,026
Money market account	2,725,356	2,838,856
Well account	11,820	7,316
Accounts receivable	208,322	208,715
Total Current Assets	<u>2,979,707</u>	<u>3,084,722</u>
NON-CURRENT ASSETS		
Capital Assets		
Office building	93,482	93,482
Field and lab equipment	4,867	4,867
Monitoring equipment	25,739	-
Vehicle	53,923	74,440
Office equipment	35,142	25,484
Total Capital Assets	<u>213,153</u>	<u>198,273</u>
Less accumulated depreciation	<u>(68,623)</u>	<u>(69,135)</u>
Total Capital Assets (net of accumulated depreciation)	<u>144,530</u>	<u>129,138</u>
Total Noncurrent Assets	<u>144,530</u>	<u>129,138</u>
TOTAL ASSETS	<u><u>\$ 3,124,237</u></u>	<u><u>\$ 3,213,860</u></u>
LIABILITIES		
Liabilities	<u>\$ 18,879</u>	<u>\$ 12,644</u>
Total Liabilities	<u>18,879</u>	<u>12,644</u>
UNRESTRICTED NET ASSETS		
Investment in capital assets net of related debt	213,153	198,273
Unrestricted net assets	<u>2,892,205</u>	<u>3,002,943</u>
Total Unrestricted Assets	<u>3,105,358</u>	<u>3,201,216</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 3,124,237</u></u>	<u><u>\$ 3,213,860</u></u>

The accompanying notes to the financial statements are an integral part of this statement.
See Independent Auditors' Report.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN UNRESTRICTED NET ASSETS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Business-Type Activity Enterprise Fund Water Programs & Transport Fund 2011	Business-Type Activity Enterprise Fund Water Programs & Transport Fund 2010
OPERATING REVENUES		
Program fees	\$ 312,531	\$ 312,729
Transport permit fees	931,973	931,973
Drilling permit fees	8,000	2,300
Exempt well permit fees	4,500	-
Miscellaneous income	-	594
Permit fees other	-	250
Total Operating Revenues	<u>1,257,004</u>	<u>1,247,846</u>
OPERATING EXPENDITURES		
Advertising	1,450	1,476
Depreciation	20,005	15,323
Dues	1,950	2,102
Education & Public Relations	36,005	17,918
Hydrologist	78,654	97,139
Vehicle expense	9,830	8,264
Insurance bond and liability	3,587	4,124
Miscellaneous	7,457	705
Office supplies	16,174	10,534
Salaries	175,625	142,495
Payroll taxes & employee benefits	46,792	49,671
Postage and delivery	1,721	1,653
Legal fees	50,863	17,030
Other professional fees	28,192	28,491
Building repairs	1,438	1,368
Telephone	7,612	5,405
Travel and entainment	9,364	8,509
Conservation program expense	876,141	652,161
Utilities	4,173	4,170
Total Operating Expenditures	<u>1,377,032</u>	<u>1,068,538</u>
Excess (deficit) of Operating Revenue over Operating Expenditures	(120,028)	179,308
NONOPERATING REVENUES (EXPENDITURES)		
Interest income	24,170	32,214
Total Nonoperating Revenues (Expenditures)	<u>24,170</u>	<u>32,214</u>
Increase (Decrease) in Net Assets	(95,858)	211,522
NET ASSET BEGINNING BALANCE	<u>3,201,216</u>	<u>2,989,694</u>
NET ASSET ENDING BALANCE	<u><u>\$ 3,105,358</u></u>	<u><u>\$ 3,201,216</u></u>

The accompanying notes to the financial statements are an integral part of this statement.
See Independent Auditors' Report.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 1 - Reporting Entity

Post Oak Savannah Groundwater Conservation District (the District) was formed April 20, 2001 by the 77th Legislature of the State of Texas with House Bill 1784, Article 3 Section 3.01, under Section 59, Article XVI of the Texas Constitution. A ten member Board of Directors appointed by the Burleson and Milam County Commissioners governs the District. Each Commissioners Court appoints five directors and must represent various interests in the counties served by the District. Among its duties, the Board of Directors approves the District's budget, approves grant contracts, sets rates for permits and fees, approves or denies any permit, and has other duties as addressed during Board Meetings.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and monitoring stations necessary for the purpose of groundwater conservation with respect to the aquifers within the district boundaries. The District provides financial assistance in the form of grants and educational resources to public and private entities for the purpose of promoting, managing, and educating with regards to groundwater resources of the central Carizzo-Wilcox Aquifer area.

In evaluating how to define the District for reporting purposes, The Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, and the significant ability to influence operations of accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no other entities which were included as a component unit in the District's financial statements.

Note 2 - Summary of Significant Accounting Policies

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (the GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP and used by the District is discussed below.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements – and management's Discussion and Analysis – for State and Local Governments* (the Statement). The District implemented the Statement on December 31, 2011. Significant changes made by the Statement include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and changes in net assets.

Government-wide financial statements are prepared using full accrual accounting for all of the District's activities, including capital assets and long-term liabilities.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
Notes To The Financial Statements
DECEMBER 31, 2011

Basic Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as reserved and unreserved. Fund balances are reserved to indicate that portion of the fund balance which is not available for expenditure or is legally segregated for a specific future use. The transactions of the District are accounted for in the following funds:

Proprietary fund – To account for all revenues and expenditures not required to be accounted for in other funds.

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual. Accrual means that funds are both measurable and available to finance expenditures of the fiscal period. Available means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related fund liability incurred is measurable.

Receivables

Service accounts receivable as reported are considered collectable. The District uses the direct write off method for uncollectible accounts. Unbilled fee and permit revenues are not material and are not recorded at year end.

Capital Assets

Capital assets, which include property, plant, equipment and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of more than \$500 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated cost if donated to or constructed by the District. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs for repairs and maintenance are expensed as incurred.

Depreciation, on capital assets, is computed using the straight-line method over the following estimated useful lives:

Vehicles	5 years
Office and field equipment	3-10 years
Buildings and improvements	10-40 years

Use of estimates

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

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 3 - Capital Assets

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

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2011</u>
Business-type activities				
<u>Capital assets,</u>				
<u>not being depreciated:</u>				
Land	\$ 3,000	0	0	\$ 3,000
Total not depreciated	<u>\$ 3,000</u>	<u>0</u>	<u>0</u>	<u>\$ 3,000</u>
 <u>Capital assets,</u>				
<u>to be depreciated:</u>				
Buildings and Improvements	\$ 90,482	0	0	\$ 90,482
Office Equipment	25,483	9,659	0	35,142
District Vehicles	74,440	0	(20,517)	53,923
Field Equipment	4,867	0	0	4,867
Monitoring Equipment	<u>0</u>	<u>25,739</u>	<u>0</u>	<u>25,739</u>
Investment in Capital Assets to be depreciated	<u>195,272</u>	<u>35,398</u>	<u>(20,517)</u>	<u>210,153</u>
 <u>Less accumulated depreciation:</u>				
Buildings and Improvements	(11,068)	(3,146)	0	(14,214)
Office Equipment	(15,512)	(4,992)	0	(20,504)
District Vehicles	(39,347)	(10,784)	20,517	(29,614)
Field Equipment	(3,208)	(555)	0	(3,763)
Monitoring Equipment	<u>0</u>	<u>(528)</u>	<u>0</u>	<u>(528)</u>
Total accumulated depreciation	<u>(69,135)</u>	<u>(20,005)</u>	<u>20,517</u>	<u>(68,623)</u>
Total capital assets depreciated, net of accumulated depreciation	<u>126,138</u>	<u>15,392</u>	<u>0</u>	<u>141,530</u>
Business-type activities Capital assets, net of accumulated depreciation	<u>\$129,138</u>	<u>15,392</u>	<u>0</u>	<u>\$144,530</u>

Note 4 - Long-Term Liabilities and Contingent Liabilities

The District has no long-term debt for the fiscal year ended December 31, 2011.

Construction Commitments and Liabilities

The District intends to drill two test wells behind the District offices. The other contingencies of the District pertain to future grant distributions.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 5 - Deposits and Investments

State statutes authorize the District to invest in direct or indirect obligations of the United States, The State of Texas, any county, city, school district or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided they are secured in the manner provided for the security of the funds under the laws of the State of Texas. The District's checking, money market account, and other regular or investment account deposits at year-end were covered by FDIC insurance or pledged securities.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 Deposits which are not collateralized.

Based on these three levels of risk, all of the District's cash deposits are classified as category 1.

The District's cash and temporary investments at December 31, 2011 are shown below.

	<u>Carrying Amount</u>	<u>Market Amount</u>	<u>Category</u>
Operating account	\$ 9,057	\$ 9,057	1
Well account	11,820	11,820	1
Money Market Savings	2,275,356	2,275,356	1
Investment in: Tex Pool	<u>25,052</u>	<u>25,052</u>	1
	<u>\$2,771,385</u>	<u>\$2,771,385</u>	

Note 6 - Concentrations of credit Risk (Cash balances at a single financial institution)

The District maintains cash balances in a single financial institution in Cameron, Texas; the Federal Deposit Insurance Corporation insures these balances. This standard maximum deposit insurance amount (SMDIA) includes \$250,000 (formerly \$100,000) for all interest bearing accounts and unlimited coverage for non-interest bearing transaction accounts. This unlimited coverage is temporary and known as the Transaction Account Guarantee Program (TAGP). The Final Rule implementing the Dodd-Frank Wall Street Reform Act permanently raises the SMDIA to the \$250,000, however, the unlimited coverage, of the TAGP, is expected to expire December 31, 2012.

At December 31, 2011, the District had no unprotected cash balances

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 7 - Pension Plan Obligations

The District provides pension benefits for all of its full-time employees through a cash balance-account type defined benefit pension plan (401(a)) in the statewide Texas County and District Retirement System (TCDRS). The TCDRS Board of Trustees is responsible for the administration of a statewide, agent multiple-employer, and public employee retirement system consisting of 618 cash balance-like defined benefit pension plans. Each of the 618 districts or counties has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2011 valuations are contained in the 2011 TCDRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to PO Box 2034, Austin, TX 78768-2034.

Benefit amounts are determined by the employee's personal account balance and employer-financed monetary credits. The level of these monetary credits is within the actuarial constraints imposed by the TCDRS Act so that the expected benefits can be adequately financed by the District's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's personal account balance, and the employer-financed monetary credits to a monthly annuity using the actuarial equivalent as prescribed by the TCDRS Act.

The District will match the employee contribution up to 6.5% of the employee's salary. As of the years ended December 31, 2011 and 2010, the District match was \$11,416 and \$9,230 respectively.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 7 Pension Plan Obligations (cont'd)

The plan provisions are adopted by the governing body of the District, within the options available in the state statutes governing TCDRS and within the actuarial constraints also in the statutes. Plan provisions for the District were as follows:

Deposit Rate	6.50%
Matching Ratio (District to Employee)	1 to 1
A member is vested after	10 years

Members can retire at ages 60 and above with 10 or more years of service; with 30 years of service regardless of age; or when the sum of their age and years of service equals 80 or more.

Actuarial Methods and Assumptions

	12/31/10	12/31/09	12/31/08
Actuarial Valuation Date	Entry age	Entry age	Entry age
Actuarial Cost Method	Level percentage	Level percentage	Level percentage
Amortization Method	of payroll, open	of payroll, open	of payroll, open
	30.0 years	30.0 years	2.0 years
Amortization period			
Asset Valuation Method			
Subdivision Accumulation Fund	10 yr smoothed	10 yr smoothed	10 yr smoothed
Employees Sving Fund	Fund value	Fund value	Fund value
Actuarial assumptions:			
Investment return-inflation			
included	8.00%	8.00%	8.00%
Projected salary increases			
inflation included	5.40%	5.40%	5.30%
Inflation	3.50%	3.50%	3.50%
Cost of living adjustments	0.00%	0.00%	0.00%

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 7 Pension Plan Obligations (cont'd)

	12/31/10	12/31/09	12/31/08
Actuarial Valuation Date			
Actuarial Value of Assets	\$ 89,368	\$ 64,862	\$ 44,667
Actuarial accrued liability	90,091	67,171	47,313
Unfunded (Overfunded) actuarial accrued [UAAL or (OAAL)]	723	2,309	2,646
Funded ratio	99.20%	96.56%	94.41%
Annual covered payroll (actuarial)	142,001	125,334	97,501
UAAL or (OAAL) as percentage of covered payroll	0.51%	1.84%	2.71%
Net Pension Obligation (NPO) at the beginning of the period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	9,230	8,260	6,338
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
Subtotal	9,230	8,260	6,338
Contributions made	9,940	8,773	6,825
Increase in NPO	-	-	-
NPO at the end of the period	<u>\$ 19,170</u>	<u>\$ 17,033</u>	<u>\$ 13,163</u>

REQUIRED SUPPLEMENTARY INFORMATION

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

BELTON, TX 76513-0808

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

Board of Directors
Post Oak Savannah Groundwater Conservation District
Milano, TX

We have audited the financial statements of Post Oak Savannah Groundwater Conservation District as of and for the year ended December 31, 2011, and have issued our report thereon dated March 27, 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 a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We have identified certain deficiencies in internal control over financial reporting that we believe to be both significant deficiencies and/or material weaknesses further defined in the accompanying document entitled *Communication of Significant Deficiencies and Material Weaknesses as Required by Statement on Auditing Standards No. 115*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

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



Belton, Texas
March 27, 2012

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET (GAAP) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>	\$ 1,271,191	\$ 1,281,174	\$ 9,983
<u>EXPENDITURES</u>			
Advertising	3,000	1,450	1,550
Depreciation	-	20,005	(20,005)
Education and public relations	36,100	36,005	95
GMA 12	50,000	18,901	31,099
GMA 8	5,000	40	4,960
Hydrologist	80,000	59,753	20,247
Miscellaneous Tools & Equipment	15,000	110	14,890
Automobile Expense	10,000	9,830	170
Dues & Subscriptions	2,000	1,950	50
Insurance	29,500	25,317	4,183
Miscellaneous	500	7,308	(6,808)
Postage and Delivery	4,000	1,721	2,279
Professional Fees	80,400	79,055	1,345
Repairs	5,000	1,438	3,562
Telephone	7,700	7,612	88
Travel and Entertainment	10,000	9,364	636
Utilities	5,000	4,173	827
Office Supplies	16,000	16,174	(174)
Payroll Expenses	204,300	200,687	3,613
Program expenses	1,050,000	876,141	173,859
	<u>1,613,500</u>	<u>1,377,033</u>	<u>236,467</u>
Excess (Deficit) of Revenues Over Expenditures (from operations)	<u>\$ (342,309)</u>	<u>\$ (95,858)</u>	<u>\$ 246,451</u>
Capital Expenditures:			
Equipment - Field & Lab	-	-	-
Monitoring Equipment	425,000	25,739	399,261
Office Equipment	-	9,659	(9,659)
Total Capital Expenditures	<u>425,000</u>	<u>35,398</u>	<u>389,602</u>
Encumbrances:			
Outstanding Grant Funds	1,407,541		
Forfeitures	<u>(84,500)</u>		
Total Outsanding Grant Funds (net of forfeitures)	<u>1,323,041</u>		
Excess (Deficit) of Revenues Over Expenditures (including capital expenditures and encumbrances)	<u>\$ (2,090,350)</u>	<u>\$ (131,256)</u>	<u>\$ 636,053</u>

The accompanying notes to the financial statements are an integral part of this statement.
See Independent Auditors' Report.

**POST OAK SAVANNAH
GROUNDWATER CONSERVATION DISTRICT**

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

DECEMBER 31, 2011

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

BELTON, TX 76513-0808

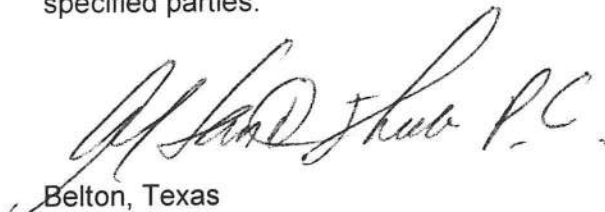
Post Oak Savannah Groundwater Conservation District
310 East Avenue C
Milano, TX 76556

In planning and performing our audit of the financial statements of Post Oak Savannah Groundwater Conservation District (the District) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Post Oak Savannah Groundwater Conservation District's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies as defined below.

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

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



Belton, Texas
March 27, 2012

MATERIAL WEAKNESSES

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in Post Oak Savannah Groundwater Conservation District's internal control to be material weaknesses:

Preparation of Financial Statements

We need to provide some historical background to explain why this procedure, or the absence thereof, is of such significance. In the early 1990s, financial fraud disclosure was undermining the reliability of financial statements, as well as the audit firm's "clean" opinions on these statements. There were significant issues with financial statement reliability, as presented to the outside auditors. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) was created in response to the heightened need for greater reliability of financial statements. One of the landmark statements issued by COSO states, in part, that internal control over financial reporting is "... a process, effected by those charged with governance, management and other personnel, designed to provide reasonable assurance about the achievement of the District's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations... the term *financial reporting* relates to the preparation of reliable financial statements that are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP)."

The governing regulatory body(ies), in your case, the Governmental Accounting Standards Board (GASB), has adopted this "Integrated Framework" to represent their expectations regarding financial statements. In this light, the minimum threshold for GAAP-based financial statements, which management (that is, the Board of Directors) is asserting "present fairly, in all material respects, the financial condition ..." is this higher level of preparation and presentation from your staff. These are not the audit firm's financial statements. The only ownership the auditor asserts is over the opinion on your financial statements.

So, with that short synopsis, we need to point out to the Board of Directors that Post Oak Savannah Groundwater Conservation District does not have personnel with the needed technical skills and experience to properly draft financial statements, including footnote disclosures, as envisioned by the "Integrated Framework" of COSO and adopted by all other oversight, regulatory agencies, including the American Institute of Certified Public Accountants, through its standard-setting committee known as the Auditing Standards Board, referred to as SAS No. 115. Accordingly, the inability to prepare such statements is considered a material weakness for internal control purposes.

We recommend the Board be more detailed in its minutes to reflect the quality of thought and control exercised through its monthly board meetings. Rather than a generic "... approved the financial statements and the accounts payable...", there could be further notations commenting on reviewing the reconciled bank balances. Accounts receivable information would include examining the list of Past Due accounts (A/R Aging). Such additional detail is designed to indicate a greater level of control and knowledge exercised by the Board and staff during a monthly operating cycle, to partially mitigate the lack of GAAP-compliant financial statements.

SIGNIFICANT DEFICIENCIES

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Post Oak Savannah Groundwater Conservation District's internal control to be significant deficiencies.

Closing Period Date

During the audit we noted in QuickBooks, the closing period date has not been set. This is essential in alerting the QuickBooks user that an operation being performed effects a prior, closed period. In some instances changes were made to transactions while we were performing the previous audit(s). When we begin an audit, we check to be sure the beginning balances agree with the balances resulting from the previous audit. When the balances do not agree, we check the audit adjustments to be sure they have been entered correctly. When a change is made to a transaction in a prior period, the effect flows through to the present or current period. It can effect bank reconciliations, reports, and interim financial statements invalidating them due to balances no longer being correct as presented. We recommend the closing period date in QuickBooks to be set in order to trigger the warning that the user is making a prior period adjustment. Making an adjustment in the current period to correct the prior period issue is recommended.

Separation of Duties

Separation of duties is paramount of internal control. We noted a lack of separation when it comes to the operations performed in QuickBooks (QB). Since the Board examines and initials the bank statements, this helps mitigate this lack of internal control.

**POST OAK SAVANNAH
GROUNDWATER CONSERVATION DISTRICT
COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE
DECEMBER 31, 2011**

ALTON D. THIELE, P.C.

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

Post Oak Savannah Groundwater Conservation District
310 East Avenue C
Milano, TX 76556

We have audited the financial statements of Post Oak Savannah Groundwater Conservation District (the District) as of and for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated October 5, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Post Oak Savannah Groundwater Conservation District are described in NOTE 2, of the notes to the financial statements. One new accounting policy entitled GASB Statement No. 34 was essentially approved by the Post Oak Savannah Groundwater Conservation District and the application of other existing policies was not changed during the fiscal year ended December 31, 2011. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the estimated useful lives of fixed assets is based on historical experience. We evaluated the key factors and assumptions used to develop the lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the Management Representation Letter dated March 27, 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 District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of retention.

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

Very truly yours,

March 27, 2012