

**POST OAK SAVANNAH GROUNDWATER
CONSERVATION DISTRICT**

**BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2012**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of Post Oak Savannah Groundwater Conservation District (the District) as of and for the years ended December 31, 2012 and 2011, which comprise the District's basic financial statements as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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. 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 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 accounting 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.

Opinion

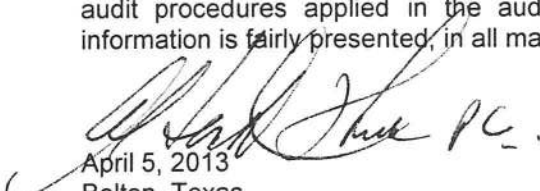
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2012 and 2011, and the respective changes in financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

Other-Matter

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2013 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 3 and 4 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.



April 5, 2013
Belton, Texas

**POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING DECEMBER 31, 2012**

This section of the Post Oak Savannah Groundwater Conservation District ("District") annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year ended on December 31, 2012. Please read it in conjunction with the District's basic financial statements and related notes.

FINANCIAL HIGHLIGHTS

- ** The District's total net position was \$ 2,617,776.
- ** Cash and investments decreased by \$ 581,974.
- ** Liabilities increased by \$8,556.

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; an enterprise fund, considered to be its major fund, is used to report business-type activities. The District uses this 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 Position

	Business-type Activities <u>2012</u>
Current Assets	\$ 2,471,878
Capital Assets	235,453
Accumulated Depreciation	<u>(62,121)</u>
Total Assets	<u>\$ 2,645,210</u>
Total Liabilities	\$ 27,434
Invested in Capital Assets Net of Related Debt	235,453
Unrestricted Net Position	<u>2,382,323</u>
Total Liabilities and Unrestricted Net Position	<u>\$ 2,645,210</u>

**POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING DECEMBER 31, 2012**

The balance of unrestricted net position, (90%) of the total net position, may be used to meet the District's ongoing obligations to the respective entities within the District boundaries.

At the end of the 2012 fiscal year, the District reports favorable balances in the two categories of net position. Unrestricted net position decreased substantially due to large disbursements to grant recipients.

Changes in Net Position

	Business-type Activities <u>2012</u>
Operating Revenues	
Charges for programs, permits, and fees	\$ 1,335,090
Non-operating Revenues	
Investment earnings	16,732
Other earnings	<u>11,364</u>
Total Revenues	<u>1,363,186</u>
Operating Expenditures	
Expenditures from business-type activities	1,832,692
Depreciation	<u>18,076</u>
Total Expenditures	<u>1,850,768</u>
Decrease in Unrestricted Net Position	(487,582)
Net Position, beginning of the year	<u>3,105,358</u>
Net Position, end of the year	<u>\$ 2,617,776</u>

Actual results from operations of the District generated a deficit of \$ (487,582) due primarily to a substantial increase in grant distributions.

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 grant program. At December 31, 2012, the total of grants awarded since the program's inception is \$5,661,214, of which, \$4,318,259 has been disbursed to the recipients leaving a balance to fund of \$1,221,451 (net of contractual forfeitures).

FINANCE SECTION

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF NET POSITION

PROPRIETARY FUND
DECEMBER 31, 2012 AND 2011

	Business-Type Activity Enterprise Fund Water Programs & Transport Fund <u>2012</u>	Business-Type Activity Enterprise Fund Water Programs & Transport Fund <u>2011</u>
ASSETS		
CURRENT ASSETS		
Petty cash	\$ 100	\$ 100
Operating account	13,752	9,057
Tex Pool	25,084	25,052
Money market account	2,134,690	2,725,356
Well account	15,785	11,820
Accounts receivable	282,467	208,322
Total Current Assets	<u>2,471,878</u>	<u>2,979,707</u>
NON-CURRENT ASSETS		
Capital Assets		
Office building	93,482	93,482
Field and lab equipment	4,867	4,867
Monitoring equipment	77,139	25,739
Vehicle	22,696	53,923
Office equipment	37,269	35,142
Total Capital Assets	<u>235,453</u>	<u>213,153</u>
Less accumulated depreciation	<u>(62,121)</u>	<u>(68,623)</u>
Total Capital Assets (net of accumulated depreciation)	<u>173,332</u>	<u>144,530</u>
Total Noncurrent Assets	<u>173,332</u>	<u>144,530</u>
TOTAL ASSETS	<u><u>\$ 2,645,210</u></u>	<u><u>\$ 3,124,237</u></u>
LIABILITIES		
Liabilities	<u>\$ 27,434</u>	<u>\$ 18,879</u>
Total Liabilities	<u>27,434</u>	<u>18,879</u>
UNRESTRICTED NET POSITION		
Investment in capital assets net of related debt	235,453	213,153
Unrestricted net position	<u>2,382,323</u>	<u>2,892,205</u>
Total Unrestricted Net Position	<u>2,617,776</u>	<u>3,105,358</u>
TOTAL LIABILITIES AND UNRESTRICTED NET POSITION	<u><u>\$ 2,645,210</u></u>	<u><u>\$ 3,124,237</u></u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditors' Report.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN UNRESTRICTED NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Business-Type Activity Enterprise Fund Water Programs & Transport Fund 2012	Business-Type Activity Enterprise Fund Water Programs & Transport Fund 2011
OPERATING REVENUES		
Program fees	\$ 314,247	\$ 312,531
Transport permit fees	951,427	931,973
Drilling permit fees	1,500	8,000
Exempt well permit fees	4,125	4,500
District services	48,302	-
Miscellaneous income	189	-
Permit fees other	15,300	-
Total Operating Revenues	<u>1,335,090</u>	<u>1,257,004</u>
OPERATING EXPENDITURES		
Conservation program expense	1,348,577	876,141
Advertising	7,091	1,450
Depreciation	18,076	20,005
Dues	1,505	1,950
Education and Public Relations	25,787	36,005
Hydrologist	108,607	78,654
Vehicle expense	5,540	9,830
Insurance bond and liability	5,192	3,587
Miscellaneous	522	7,457
Office supplies	7,987	16,174
Salaries	175,323	175,625
Payroll taxes and employee benefits	62,879	46,792
Postage and delivery	1,667	1,721
Legal fees	40,408	50,863
Other professional fees	18,339	28,192
Building repairs	3,938	1,438
Telephone	7,537	7,612
Travel and entertainment	8,792	9,364
Utilities	3,001	4,173
Total Operating Expenditures	<u>1,850,768</u>	<u>1,377,032</u>
Excess (deficit) of Operating Revenue over Operating Expenditures	(515,678)	(120,028)
NONOPERATING REVENUES (EXPENDITURES)		
Interest income	16,732	24,170
Gain (Loss) on disposition of assets	11,364	-
Total Nonoperating Revenues (Expenditures)	<u>28,096</u>	<u>24,170</u>
Increase (Decrease) in Net Position	(487,582)	(95,858)
NET POSITION BEGINNING BALANCE	<u>3,105,358</u>	<u>3,201,216</u>
NET POSITION ENDING BALANCE	<u><u>\$ 2,617,776</u></u>	<u><u>\$ 3,105,358</u></u>

The accompanying notes are an integral part of these statements.
See Independent Auditors' Report.

POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT NOTES TO THE FINANCIAL STATEMENTS

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 basic financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The Governmental Accounting Standards Board (the GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies, established by U.S. GAAP and used by the District, are 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 then implemented the Statement as applicable. 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

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 restricted and unrestricted. Fund balances that are restricted indicate a 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, improvements, and monitoring equipment	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**

Note 3 - Capital Assets

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

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2012</u>
<u>Business-type activities</u>				
<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	35,142	2,765	(638)	37,269
District Vehicles	53,923	0	(31,227)	22,696
Field Equipment	4,867	0	0	4,867
Monitoring Equipment	<u>25,739</u>	<u>51,400</u>	<u>0</u>	<u>77,139</u>
Investment in Capital Assets to be depreciated	<u>210,153</u>	<u>55,155</u>	<u>(32,865)</u>	<u>232,453</u>
 <u>Less accumulated depreciation:</u>				
Buildings and Improvements	(14,215)	(3,145)	0	(17,360)
Office Equipment	(20,504)	(6,406)	638	(26,272)
District Vehicles	(29,614)	(4,539)	23,940	(10,213)
Field Equipment	(3,762)	(555)	0	(4,317)
Monitoring Equipment	<u>(528)</u>	<u>(3,431)</u>	<u>0</u>	<u>(3,959)</u>
Total accumulated depreciation	<u>(68,623)</u>	<u>(18,076)</u>	<u>24,578</u>	<u>(62,121)</u>
Total capital assets depreciated, net of accumulated depreciation	<u>141,530</u>	<u>37,079</u>	<u>(8,287)</u>	<u>170,332</u>
Business-type activities Capital assets, net of accumulated depreciation	<u>\$144,530</u>	<u>37,079</u>	<u>(8,287)</u>	<u>\$173,332</u>

**POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

Note 4 - Long-Term Liabilities and Contingent Liabilities

The District has no long-term debt for the fiscal year ended December 31, 2012.

Contingent Liabilities

The District is obligated to fund remaining grant distributions, net of forfeitures, as follows:

2010 Grant Awards	\$ 99,631
2011 Grant Awards	370,390
2012 Grant Awards	751,430
Remaining balance to fund	<u>\$ 1,221,451</u>

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, 2012 are shown below.

	<u>Carrying Amount</u>	<u>Market Amount</u>	<u>Category</u>
Operating account	\$ 13,752	\$ 13,752	1
Money market account	2,134,690	2,134,690	1
Well account	15,785	15,785	1
Investment in: TexPool	25,084	25,084	1
	<u>\$ 2,189,311</u>	<u>\$ 2,189,311</u>	

**POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

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) is \$250,000 (formerly \$100,000) for all accounts. The Final Rule implementing the Dodd-Frank Wall Street Reform Act permanently raises the SMDIA to \$250,000, however, the unlimited coverage of the Transaction Account Guarantee Program (TAGP), expired December 31, 2012. The financial institution has pledged securities to cover all balances in excess of the current SMDIA.

At December 31, 2012, the District had no unprotected cash balances.

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 624 cash balance-like defined benefit pension plans. Each of the 624 participating entities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2012 valuations are contained in the 2012 TCDRS Comprehensive Annual Financial Report (CAFR), 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, 2012 and 2011, the District match was \$11,923 and \$11,416 respectively.

**POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

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:

Contribution Rate	6.50%
Deposit Rate	7.00%
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

Actuarial Valuation Date	12/31/11	12/31/10	12/31/09
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, open 30.0 years	Level percentage of payroll, open 30.0 years	Level percentage of payroll, open 30.0 years
Amortization period	30.0 years	30.0 years	30.0 years
Asset Valuation Method			
Subdivision Accumulation Fund	10 yr smoothed Fund value	10 yr smoothed Fund value	10 yr smoothed Fund value
Employees Sving Fund			
Actuarial assumptions:			
Investment return-inflation included	8.00%	8.00%	8.00%
Projected salary increases inflation included	5.40%	5.40%	5.40%
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

NOTE 7 Pension Plan Obligations (cont'd)

	12/31/11	12/31/10	12/31/09
Actuarial Valuation Date			
Actuarial Value of Assets	\$ 119,968	\$ 89,368	\$ 64,862
Actuarial accrued liability	120,088	90,091	67,171
Unfunded (Overfunded) actuarial accrued [UAAL or (OAAL)]	120	723	2,309
Funded ratio	99.90%	99.20%	96.56%
Annual covered payroll (actuarial)	175,626	142,001	125,334
UAAL or (OAAL) as percentage of covered payroll	0.07%	0.51%	1.84%
Net Pension Obligation (NPO) at the beginning of the period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC)	11,416	9,230	8,260
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
Subtotal	11,416	9,230	8,260
Contributions made	11,923	9,940	8,773
Increase in NPO	-	-	-
NPO at the end of the period	<u>\$ 23,339</u>	<u>\$ 19,170</u>	<u>\$ 17,033</u>

REQUIRED SUPPLEMENTARY INFORMATION

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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

Independent Auditors' Report

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

We have audited 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, the financial statements of the business-type activities and the aggregate remaining fund information of Post Oak Savannah Groundwater Conservation District as of and for the year ended December 31, 2012, 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 5, 2013.

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 audit procedures that are appropriate in circumstances 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.

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, 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.

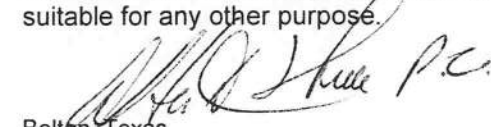
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We have not identified any deficiencies in internal control over financial reporting that we believe to be both significant deficiencies and/or material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.


Belton, Texas
April 5, 2013

Member Texas Society of Certified Public Accountants
Member American Institute of Certified Public Accountants

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POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET (GAAP) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>	\$ -	\$ 1,335,090	\$ 1,335,090
<u>EXPENDITURES</u>			
Advertising	7,000	7,091	(91)
Depreciation	-	18,076	(18,076)
Education and public relations	25,000	25,788	(788)
GMA 12	40,000	26,316	13,684
GMA 8	5,000	625	4,375
Hydrologist	75,000	82,291	(7,291)
Miscellaneous Tools and Equipment	15,000	346	14,654
Automobile Expense	7,000	5,540	1,460
Dues and Subscriptions	2,500	1,505	995
Insurance	35,000	31,604	3,396
Miscellaneous	500	522	(22)
Postage and Delivery	4,000	1,668	2,332
Professional Fees	71,000	58,747	12,253
Repairs	5,000	3,938	1,062
Telephone	7,500	7,536	(36)
Travel and Entertainment	19,000	8,792	10,208
Utilities	5,000	3,001	1,999
Office Supplies	13,000	7,016	5,984
Payroll Expenses	220,000	211,790	8,211
Program expenses	3,134,830	1,348,577	1,786,254
	<u>3,691,330</u>	<u>1,850,768</u>	<u>1,840,562</u>
Excess (Deficit) of Revenues Over Expenditures (from operations)	<u>\$ (3,691,330)</u>	<u>\$ (515,678)</u>	<u>\$ 3,175,652</u>
Capital Expenditures:			
Equipment - Field & Lab	-	-	-
Monitoring Equipment	-	51,400	(51,400)
Office Equipment	-	2,126	(2,126)
Total Capital Expenditures	<u>-</u>	<u>53,526</u>	<u>(53,526)</u>
Encumbrances:			
Outstanding Grant Awards	1,278,221		
Forfeitures	<u>(56,769)</u>		
Total Outstanding Grant Awards (net of forfeitures)	<u>1,221,451</u>		
Excess (Deficit) of Revenues Over Expenditures (including capital expenditures and encumbrances)	<u>\$ (4,912,781)</u>	<u>\$ (569,204)</u>	<u>\$ 3,122,126</u>

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