

**CLEARWATER UNDERGROUND
WATER CONSERVATION DISTRICT**

**GENERAL PURPOSE FINANCIAL
STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2012



ALTON D. THIELE, P.C.

Certified Public Accountant

Belton, Texas

**CLEARWATER UNDERGROUND
WATER CONSERVATION DISTRICT**

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SEPTEMBER 30, 2012

CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
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ALTON D. THIELE, P.C.

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Independent Auditors' Report

Board of Directors
Clearwater Underground Water Conservation District
Belton, Texas 76513

We have audited the accompanying financial statements of the governmental activities and aggregate remaining fund information of Clearwater Underground Water Conservation District (the District) for the year ended September 30, 2012 which comprise the District's financial statements as listed in the table of contents. These financial statements are the responsibility of management of the District. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

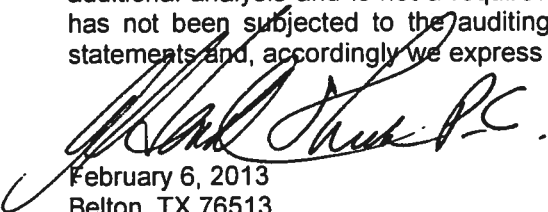
We conducted the audit in accordance with U.S. generally accepted accounting principles and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe 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 financial position of Clearwater Underground Water Conservation District as of September 30, 2012, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2013 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, grants, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Audit Standards and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis on Pages 2 to 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clearwater Underground Water Conservation District's basic financial statements. The supplementary information on pages 13 to 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on it.



February 6, 2013
Belton, TX 76513

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

As management of the Clearwater Underground Water Conservation District (the District), we offer readers of the District's annual financial report this narrative overview and analysis of the District's financial performance during the fiscal year ended September 30, 2012. This discussion and analysis is intended to be an easily readable analysis of the District's financial activities based on currently known facts, decisions, and conditions. Please read it in conjunction with the District's financial statements and the related notes.

REPORT LAYOUT

In addition to the Management's Discussion and Analysis (MD&A), the report consists of basic financial statements, notes to the financial statements, and supplementary information. The basic financial statements are highly condensed and present a government-wide view of the District's finances. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the District. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide basic financial statements.

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 fund accounting for a governmental entity. The District is funded primarily by property tax revenue from within the District's boundaries to provide a means by which underground water is controlled and monitored throughout the District.

FINANCIAL HIGHLIGHTS

- ** The District's total net assets were \$ 823,554.
- ** Cash and investments \$ 470,122.
- ** The District's liabilities were \$ 95,270.
- ** Tax revenues were \$ 549,448.
- ** Capital expenditures were \$ 427,728
- ** Operational expenditures were \$ 492,193.

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets: The following table summarizes the changes in Net Assets

<u>2012</u>	<u>General Fund</u>	<u>General Capital Assets</u>
Current Assets	\$ 491,096	
Capital Assets (Net of Accum Dep)		\$ 427,728
Liabilities	<u>(95,270)</u>	
Net Assets: Unreserved	<u>\$ 395,826</u>	
Investment in General Capital Assets		<u>\$ 427,728</u>

Operating Activities: The following table summarizes the change in Net Assets

<u>2012</u>	<u>General Fund</u>	<u>Total</u>
Tax Revenue	\$ 549,448	\$ 549,448
Interest and Other Revenues	9,173	9,173
Expenditures	<u>(492,193)</u>	<u>(492,193)</u>
Change in Net assets	<u>\$ 66,428</u>	<u>\$ 66,428</u>

As shown in the above information, the District improved financially. The District's net assets increased. In addition to the operational expenditures, the District expended \$ 434,366 in the construction of new offices with accumulated depreciation of \$ 6,638 creating an additional increase in net assets of \$ 427,728.

BUDGETARY HIGHLIGHTS

Actual tax revenues were less than the expected tax revenues by \$(7,118) or 1.3%. However, actual operational expenditures were 13% less than budgeted expenditures. This resulted in an increase in net assets of \$ 66,428 where there was a zero increase budget. The budget was legally adopted according to established guidelines and the Board of Directors legally adopted amendments to individual budget items during the fiscal year.

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

CAPITAL ASSETS

At October 1, 2011, the District had no investment in Capital Assets. During the year, new facilities to house the District offices were constructed and equipment was purchased so that at September 30, 2012, the District had a net increase in Capital Assets of \$427,728.

<u>2012</u>	<u>Investment in Capital Assets</u>
Land	\$ 55,366
Land improvements	19,000
Building	304,470
Field equipment	9,998
Office equipment	<u>45,532</u>
Total	434,366
Accumulated depreciation	<u>(6,638)</u>
Total Capital Assets (net of accum dep)	<u>\$ 427,728</u>

Additional information regarding Capital Assets can be found in the notes to the financial statements.

DEBT OUTSTANDING

The District has no long term debt as of the fiscal year ended September 30, 2012.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's property tax rate for 2012/2013 remains \$0.004 per \$100 valuation. The estimated taxable property value is 14,184,598,250 for a total expected tax revenue of \$567,384. Income other than from property taxes is estimated at \$10,000. The District's budgeted expenditures for 2012/2013 are \$577,875.

FINANCIAL CONTACT

The District's financial statements are designed to present users (citizens, taxpayers, creditors, and regulatory agencies) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District Manager at 700 Kennedy Ct., PO Box 1989, Belton, TX 76513.

BASIC FINANCIAL STATEMENTS
AND RELATED NOTES
AS OF SEPTEMBER 30, 2012

CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2012

	Governmental Funds		
	<u>General</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>			
Cash in Banks	\$ 48,430		\$ 48,430
Invested Funds	421,692		421,692
Receivables			
Taxes	20,974		20,974
Capital Assets (net of accumulated depreciation)			
Infrastructure		<u>427,728</u>	<u>427,728</u>
Total Assets	<u>\$ 491,096</u>	<u>\$ 427,728</u>	<u>\$ 918,824</u>
<u>LIABILITIES</u>			
Liabilities			
Accounts Payable	\$ 74,296		\$ 74,296
Deferred Revenues	<u>20,974</u>		<u>20,974</u>
Total Liabilities	<u>95,270</u>		<u>95,270</u>
Fund Equity			
Fund Balances			
Unreserved	<u>395,826</u>	<u>(395,826)</u>	
Total Fund Equity	<u>395,826</u>	<u>(395,826)</u>	
Total Liabilities and Fund Equity	<u>\$ 491,096</u>		
Net Assets			
Investment in General Capital Assets (Net of related debt)		427,728	427,728
Unreserved		<u>395,826</u>	<u>395,826</u>
Total Net Assets		<u>\$ 823,554</u>	<u>\$ 823,554</u>

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

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES			
Operations			
Director Fees	\$ 9,000		\$ 9,000
Administrative	81,431		81,431
Compensation and benefits	141,817		141,817
Depreciation	6,638		6,638
Facilities costs	11,732		11,732
Clearwater studies	89,930		89,930
Legal and professional	77,917		77,917
Collection fees	6,354		6,354
Advertising	1,582		1,582
Other operating expenditures	65,792		65,792
Capital expenditures	<u>427,728</u>	<u>(427,728)</u>	<u>-</u>
Total Expenditures	<u>919,921</u>	<u>(427,728)</u>	<u>492,193</u>
REVENUES			
General Revenues			
Property Taxes	549,448		549,448
Other Revenue	8,367		8,367
Interest	<u>806</u>		<u>806</u>
Total Revenues	<u>558,621</u>		<u>558,621</u>
Excess (Deficiency) of Revenues over Expenditures	(361,300)	427,728	66,428
Change in Capital Assets	427,728	(427,728)	
Change in Net Assets		427,728	427,728
FUND BALANCE/NET ASSETS			
Beginning of year	<u>329,398</u>	<u>-</u>	<u>329,398</u>
End of year	<u>\$ 395,826</u>	<u>\$ 427,728</u>	<u>\$ 823,554</u>

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

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING

The accompanying financial statements of Clearwater Underground Water Conservation District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments.

The District was created in 1989 by resolution of the Commissioners Court of Bell County, Texas, pursuant to H.B. 3172, Chapter 524, Acts of the 71st Legislature (1989 Session)(the "Act"). The District is a governmental agency and a body politic and corporate, created by and acting pursuant to the Act as amended by S.B. 404, Chapter 22, Act of the 77th Legislature (2001 Session), S.B. 1755, Chapter 64, Act of the 81st Legislature (2009 Session), and by applicable law including the provisions of Chapters 36 and 49 of the *Texas Water Code*. A five member group, which constitutes the Board of Directors, is the level of government which has responsibility over all related activities within the jurisdiction of the Clearwater Underground Water Conservation District. The District receives funding from local property taxes; certain well, pump, and transmission fees; and interest resulting from investments of excess funds.

The District is not included in any other governmental reporting entity. The taxpayers within the jurisdiction of the District elect the Board members. The Directors have decision-making authority, the power to designate management, the responsibility of operations, and the primary accountability of fiscal and fiduciary matters.

Fund accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. A description of the fund types and account groups used by the District follows.

Governmental fund

General fund – All unrestricted financial resources except those required to be accounted for in another fund are recorded in the general fund. It is the District's general operating fund. Taxes and interest are the major sources of revenue. Expenditures include all costs associated with the daily operations of the District.

Account group

General capital asset account group – All capital assets of the District are accounted for in this group. The account group is not a fund. It only measures financial position and is not involved with measurement of results of activities.

Basis of accounting

All funds of the District use the accrual basis of accounting. Under this method, revenues are recorded when susceptible to accrual (i.e., both measurable and available). Funds are considered available when they are collectible in the current period or soon enough thereafter to pay current liabilities. All revenues of the District are susceptible to accrual. Expenditures, if measurable, are recognized as incurred with the exception of principal and interest on general long-term debt which is recognized when due.

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF ACCOUNTING
(CONTINUED)**

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit.

Budgets and budgetary accounting

The adoption of an annual budget, for the general fund, is required prior to the beginning of each fiscal year on a basis consistent with accounting principles generally accepted in the United States of America. Thirty to sixty days prior to the beginning of each fiscal year, District management will submit a proposed budget for the fiscal year beginning on the following October 1st. The operating budget includes proposed expenditures and the means of financing them. After consideration the Board of Directors will adopt the budget by appropriate board action. Any revisions that alter the budget must also be considered and approved by board action.

Capital assets

General capital assets have been acquired for general governmental purposes. Assets purchased or constructed are recorded as expenditures in the applicable governmental fund type and capitalized at historical cost in the General Capital Asset Account Group. Contributed capital assets are recorded at estimated fair market value at the time received. Infrastructure assets are also included in the General Capital Asset Account Group.

The full depreciation of the applicable capital assets is being recognized in compliance with the implementation of GASB Statement 34. Depreciation is calculated on the straight-line basis according to the following useful lives:

Building and improvements	20 – 40 years
Office and Field equipment	5 - 15 years

Risks and uncertainties

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 expenditures during the reporting period. Actual results could differ from those estimates.

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 2 – PROPERTY TAXES

Property taxes are levied October 1 on the assessed value of the prior January 1 for all real and business personal property located in the district in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The District's property taxes are billed and collected by the Bell County Appraisal District. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period at the close of the District's fiscal year.

The net assessed value after adjustments, based on 100 percent of the assessed valuation of real and personal property within the District on the 2011 tax roll, was \$13,905,864,198. The 2011 tax rate of \$0.004 per \$100 valuation was assessed and allocated to the General Fund. The resulting tax levy was \$ 556,242.

Deferred tax revenue is reported by the District on its General Fund balance sheet and arises when potential revenue does not meet the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for the deferred revenue is removed from the balance sheet and the revenue is recognized. The current Deferred Revenue is \$ 20,974.

NOTE 3 – CHANGES IN GENERAL CAPITAL ASSETS

A summary of changes in general capital assets is as follows:

<u>2012</u>	<u>Primary Government</u>			<u>Ending Investment</u>
	<u>Beginning investment</u>	<u>Increase</u>	<u>Retirements</u>	
Capital Assets not depreciated				
Land	\$ 0.00	\$ 55,366		\$ 55,366
Total not depreciated	0.00	55,366		55,366
Capital Assets depreciated				
Land improvements	-0-	19,000		19,000
Building	-0-	304,470		304,470
Field equipment	-0-	9,998		9,998
Office equipment	-0-	45,532		45,532
Total depreciated	-0-	379,000		379,000
Total Capital Assets	-0-	434,366		434,366
Accumulated depreciation	-0-	(6,638)		(6,638)
Total Capital Assets (net)	\$ 0.00	\$ 427,728		\$ 427,728

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED SEPTEMBER 30, 2012**

NOTE 4 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The District's checking deposits and TexPool investments at September 30, 2012, were fully covered by federal depository insurance and/or pledged securities.

The District's cash and invested funds at September 30, 2012, were as follows:

	General Fund
First State Bank of Central Texas	
Operating account	\$ 44,430
TexPool Accounts	
LGI Pool	221,561
Prime	200,131
Total TexPool accounts	421,692
Total cash and invested funds	\$ 466,122

The market value for the above listed accounts is not materially different from the carrying value of the accounts.

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 agents 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 as of September 30, 2012, are classified as *Category 1*.

The District is authorized, by law, to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, fully collateralized repurchase agreements, certain types of commercial paper, certain types of municipal bonds and local government investment pools created under the Interlocal Cooperation Act, wherein all funds were invested as listed above.

NOTE 5 – EMPLOYEE BENEFITS

Annual Leave

Annual leave (vacation) is a benefit provided to eligible, full-time, employees of the District. A full-time employee is one who is regularly scheduled to work thirty to forty hours per week. Annual leave is accrued at eight hours per pay period immediately upon employment but cannot be taken until the employee has reached the one hundred eighty (180) day probationary period. The accrual maximum is twelve days for an employee with up to five years of continuous service. After five years, an employee is entitled to accrue an additional three days for a total of fifteen days per year. An employee can carry-over leave up to a maximum of twenty-four days per fiscal year. Remaining accrued leave is payable upon termination. Accrual at fiscal year-end was not material to these financial statements.

CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 5 – EMPLOYEE BENEFITS (continued)

Sick Leave

A full-time employee, as previously defined, is entitled to six days per year. Accrual of sick leave is at four hours per pay period and a full-time employee can accumulate up to twelve days with carry-over. Upon termination of employment, no accumulated sick leave will be paid.

Retirement Plan

The District has established a Governmental 457 Deferred Compensation Plan as their retirement plan for full-time eligible employees. UMB Bank, N.A. is designated as trustee and Security Financial Resources, Inc. is the plan service provider. The District agrees to match employee contributions at 100% of the first 3% and 50% of the next 3% for a maximum match of up to 4.5% depending on the contribution of the employee. As of September 30, 2012, the employer match was \$ 1,890.

NOTE 6 - SUBSEQUENT EVENTS

District management has evaluated subsequent events through February 6, 2013; the date the financial statements were available to be issued. No change to the financial statements for the fiscal year ending September 30, 2012 is deemed necessary as a result of this evaluation.

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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BELTON, TX 76513-0808

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

Board of Directors
Clearwater Underground Water Conservation District
700 Kennedy Ct.
Belton, TX, 76513

We have audited the financial statements of Clearwater Underground Water Conservation District (the District) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 6, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

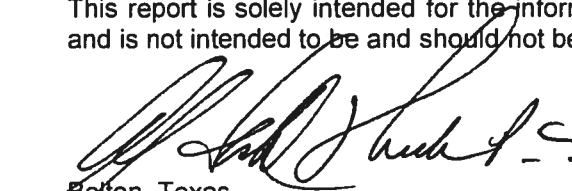
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination 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*. However, we refer to the *Communication of Significant Deficiencies and Material Weaknesses as Required by Statements on Auditing Standards No. 115* for recommendations on future compliance issues.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We have noted matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses and refer to the *Communication of Significant Deficiencies and Material Weaknesses as Required by Statements on Auditing Standards No. 115*.

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


Belton, Texas
February 6, 2013

SUPPLEMENTAL INFORMATION

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
INDEX OF SUPPLEMENTAL SCHEDULES INCLUDED IN THIS REPORT
SEPTEMBER 30, 2012**

Schedules Included*

<u>YES</u>	<u>NO</u>	
_____	_____X_____	Notes required by the <u>Water District Accounting Manual</u>
_____X_____	_____	Budgetary Comparison Schedule
_____X_____	_____	Schedule of General Fund Expenditures
_____X_____	_____	Schedule of Temporary Investments
_____X_____	_____	Schedule of Service and Rates
_____X_____	_____	Analysis of Taxes Levied and Receivable
_____	_____X_____	Analysis to Changes in Long-Term Debt
_____	_____X_____	General Long-Term Debt Service Requirements by Years
_____	_____X_____	Analysis of Changes in General Fixed Assets
_____	_____X_____	Comparative Schedule of Revenues and Expenditures - Five Years - General Fund
_____	_____X_____	Analysis of Changes in Assets and Liabilities - Agency Fund
_____X_____	_____	Schedule of Board Members, Key Personnel, and Consultants

* Schedules not included are not applicable to this entity.

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>General Fund</u>		VARIANCE Positive (Negative)
	<u>BUDGET</u>	<u>Actual</u>	
REVENUES			
Property taxes	\$ 556,566	\$ 549,448	\$ (7,118)
Application fee	7,200	7,200	-
Transport fee	1,167	1,167	-
Interest	1,000	789	(211)
Other income	-	17	17
Total revenues	<u>565,933</u>	<u>558,621</u>	<u>(7,312)</u>
EXPENDITURES			
Administrative expenses	125,855	90,431	35,424
Compensation and benefits	144,070	141,817	2,253
Clearwater studies	83,397	89,930	(6,533)
Educational outreach/marketing	13,156	9,884	3,272
Computer systems	30,000	31,996	(1,996)
Legal fees	66,400	77,916	(11,516)
Other operating expenses	42,427	31,848	10,579
Depreciation	-	6,638	(6,638)
Reserve for uncollected taxes*	19,000	-	19,000
Furniture and equipment*	28,678	-	28,678
Facility costs	7,000	5,816	1,184
Utilities	5,950	5,917	33
Total expenditures	<u>565,933</u>	<u>492,193</u>	<u>73,740</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>66,428</u>	<u>66,428</u>
 * Budget reserves for balance sheet items			
Reserve for uncollected taxes*	19,000	20,974	(1,974)
Furniture and equipment*	28,679	29,181	(502)

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
 SCHEDULE OF GENERAL FUND EXPENDITURES
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Current		
Compensation and benefits*	\$	141,817
Professional Services		
Auditing		-
Legal		77,916
Clearwater studies		89,930
Utilities		5,917
Facility costs		5,816
Administrative expenses		90,431
Capital outlay		
Acquisition of capital assets		434,366
Educational outreach/marketing		9,884
Computer systems		31,996
Other operating expenses		31,848
Other expenditures		<u>-</u>
TOTAL	\$	<u><u>919,921</u></u>

* Number of persons employed by the District: 2 - Full-time and 1 - Part-time

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
SCHEDULE OF TEMPORARY INVESTMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<u>Governmental Funds</u>	<u>Pool / Type</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General Fund				
Local Government				
Investment Pools				
TexPool	449	0.1501%	Demand	\$ 221,561
TexPool - Prime	590	0.1757%	Demand	<u>200,131</u>
TOTAL				<u>421,692</u>
Other accounts				
First State Bank of CT				
Operations account	Transaction	N/A	Demand	<u>48,430</u>
TOTAL				<u>48,430</u>
TOTAL ALL ACCOUNTS				<u><u>\$ 470,122</u></u>

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
SCHEDULE OF SERVICE AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

1. Services Provided by the district during the Fiscal Year:

- | | | |
|---|---|-------------------------------------|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| <input checked="" type="checkbox"/> Other (specify): <u>Underground Water Conservation District</u> | | |

2. Retail Service Providers

a. Retail Rates Based on a 5/8" Meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum Use	Usage Levels (gallons)
<u>WATER</u>	\$ -		N	\$ -	N/A
<u>WASTEWATER</u>	\$ -			\$ -	N/A
<u>SURCHARGE</u>	\$ -			\$ -	N/A

District employs winter averaging for wastewater usage? Yes ___ No X
 Total water and sewer charges per 10,000 gallons usage (including surcharge) \$ -

b. Water and Wastewater Retail Connections:

	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Total Water	_____	_____		_____
Total Wastewater	_____	_____		_____

3. Total water consumption (rounded to the nearest 1,000) during fiscal year:

Gallons pumped into system: N/A Water Accountability Ratio
 (Gallons billed /Gallons Pumped)
 Gallons billed to customers: N/A

4. Standby Fees: (authorized only under TWC Section 49.231):

Does the District assess standby fees? Yes ___ No X

5. Location of District

County(ies) in which the district is located: Bell County

Is the district located entirely within one county? Yes X No ___

Is the district Located within a city? Entirely ___ Partly X Not at all ___

City(ies) in which the district is located: District boundary co-exists with that of Bell Co.

Is the District located within a city's extra-territorial Jurisdiction (ETJ)? N/A
 Entirely ___ Partly ___ Not at all ___

Are Board members appointed by an office outside the District? Yes ___ No X

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
ANALYSIS OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

		<u>Maintenance Taxes</u>
Taxes receivable at October 1, 2011	\$	14,971
2011 Original tax roll, net		<u>556,242</u>
Total to be accounted for		<u>571,213</u>
 Tax Collections:		
Current year		(539,552)
Prior years		<u>(10,687)</u>
Total collections		<u>(550,239)</u>
 Taxes receivable, September 30, 2012	 \$	 <u>20,974</u>
 Taxes receivable by years:		
2005 and years prior to	\$	4,171
2006		1,117
2007		1,289
2008		1,779
2009		2,408
2010		3,641
2011		<u>6,569</u>
 Taxes receivable, December 31, 2011		 <u>20,974</u>
		<u>2011</u>
Property Valuations	\$	13,905,864,198
 Tax rates per \$100 valuation:		
Debt service tax rates		N/A
Maintenance tax rates		0.004
Total tax rates per \$100 valuation:		<u>0.004</u>
 Original tax levy	 \$	 <u>556,235</u>
 Percent of taxes collected to taxes levied**		 98.92%

** Calculated as taxes collected from current and previous years divided by the original tax levy.

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
SCHEDULE OF BOARD MEMBERS, CONSULTANTS, AND KEY PERSONNEL
SEPTEMBER 30, 2012**

Complete District Mailing Address: PO Box 1989, Belton, TX 76513

District Business Telephone Number: (254) 933-0120

Submission Date of the most recent District Registration Form: N/A
(TWC Sections 36.054 and 49.054)

Limit on Fees of Office that a Director may receive during a fiscal year: \$9,000
(TWC Section 36.060) Fee: \$150 per day while on District business

Name and addresses	Precinct and Terms of Office 4-year terms	Fees Paid as of 09/30/2012	Expense Reimbursement	Title as of 09/30/2012	Property owner within the District
<u>Board Members</u>					
Leland Gersbach 7872 Hackberry Holland, TX 76534	Precinct 1 2012 to 2016	Waived	\$0	President	Yes
Bill Bartlett 1530 Rose Lane PO Box 183 Salado, TX 76571	Precinct 2 2010 to 2014	\$1,650	\$0	Director	Yes
Wallace Biskup PO Box 265 Troy, TX 76579	Precinct 3 2012 to 2016	\$2,400	\$78	Vice President	Yes
Judy Parker 1235 River Ridge Ranch Road Killeen, TX	Precinct 4 2010 to 2014	\$4,200	\$1,136	Secretary	Yes
David Cole 2401 Brown Circle Killeen, TX 76543	At-Large 2010 to 2014	Waived	\$0	Director	Yes
<u>Consultants</u>					
Lloyd Gosselink Attorneys at Law 816 Congress Ave Suite 1900 Austin, TX 78701- 4071	N/A	\$77,917	N/A	Attorney	N/A
Alton D Thiele, P.C. P.O. Box 808 Belton, TX 76513	N/A	\$0	N/A	Auditor	N/A
<u>Key Personnel</u>					
Dirk Aaron	N/A	\$52,000		District Manager	
Shelly Chapman	N/A	\$32,000		District Administrative Assistant	

**CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT
COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

SEPTEMBER 30, 2012

ALTON D. THIELE, P.C.

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

Clearwater Underground Water Conservation District
700 Kennedy Ct.
PO Box 1989
Belton, TX 76513

We have audited the financial statements of Clearwater Underground Water Conservation District (the District) as of and for the year ended September 30, 2012. 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 February 6, 2013. 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 Clearwater Underground Water Conservation District are described in NOTE 1 to the financial statements. All accounting policies used by Clearwater Underground Water Conservation District were new and adopted while the application of existing policies used by CTCOG on behalf of the District were not changed during the fiscal year ended September 30, 2012. 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 February 6, 2013.

Management Consultations with Other Independent Accountants

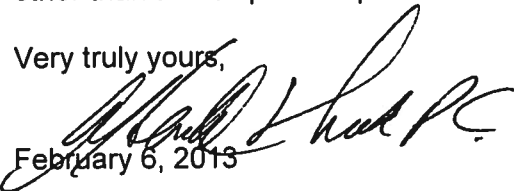
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the 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. Please refer to the *Communication of Significant Deficiencies Material Weaknesses as Required by Statement on Auditing Standards No. 115*; other matters for Board consideration.

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

Very truly yours,



February 6, 2013

CLEARWATER UNDERGROUND WATER CONSERVATION DISTRICT

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

SEPTEMBER 30, 2012

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

BELTON, TX 76513-0808

Clearwater Underground Water Conservation District
700 Kennedy Ct.
PO Box 1989
Belton, TX 76513

In planning and performing our audit of the financial statements of Clearwater Underground Water Conservation District (the District) as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Clearwater Underground Water 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 first paragraph and was not designed to identify all deficiencies in internal control that might be considered material weaknesses or significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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 the 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. The Treadway Commission is also known as the National Commission on Fraudulent Reporting. 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 Clearwater Underground Water 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.

Clearwater Underground Water Conservation District has limited staff to perform office management and clerical functions to maintain divisions of duties for adequate checks and balances. To compensate for these limitations, Board members provide additional oversight and have sufficient knowledge and experience to mitigate this inability to provide compliant interim financial statements. However, the office staff should receive additional training in the preparation of GAAP compliant interim financial statements for presentation at Board meetings. This compliance includes correct structure and titles of the respective statements.

Taxes Receivable and Delinquent Tax Recognition

Presently, internal controls do not include the proper recognition and documentation of property taxes receivable and delinquent. Therefore, the interim financial statements do not correctly present the taxes receivable, defined as measurable and collectable. This resulted in a material adjustment at fiscal year end to present the taxes receivable and delinquent correctly in the audited financial statements. We recommend taxes receivable and delinquent be examined by District management monthly for material changes and appropriate journal entries made.

Other Matters for Board Consideration

While the following issues did not rise to the level of material weaknesses or significant deficiencies, management indicated that they be presented to the Board for approval to proceed. These issues are considered part of the "learning curve" after separation from the services provided by the Central Texas Council of Governments (CTCOG) who served as a contract service provider of administrative accounting.

Chart of Accounts

Your Chart of Accounts, (the Chart), was established using descriptive references to accounts without any indexing numbers. As the Chart expands accounts with similar descriptions can cause entries to be incorrectly made. To avoid this, we recommend numbering the Chart in a manner consistent with account types. Some account types needed to be changed due to the manner in which QuickBooks accounting software regards them. There were modifications to some descriptions needed due to the accounting implications posed by the initial descriptions. There are also accounts to be added and removed as necessary for audit adjustments.

Audit Adjusting Entries

There were a number of adjusting entries required in order to correct initial entries after separation from CTCOG and in order to properly recognize certain accounting requirements regarding capital assets and fund equity. An entry was also needed to recognize current depreciation.

Capital Assets Inventory and Capitalization Policy

Tracking and documenting Capital Assets is necessary to accurately present the District's investment. There is no current policy setting any guidelines management is to follow when deciding to capitalize or expense an acquisition. Management should also keep a record of Capital Assets annually to track what is still useful and what should be retired or replaced. An asset summary was produced in order to determine current depreciation on the straight-line basis with useful lives from 5 to 40 years. This summary can be used as a basis for the asset inventory.

Bank Reconciliations

During the audit, a bank reconciliation was performed using a date inconsistent with traditional month-end and closed period internal controls. We recommended using the last day of the month if the statement ending date is other than the last day. There were outstanding transactions not properly recognized on the reconciliation in question but were not of a material amount.

Texas Water Code Compliance issues

There are two filings that have not been made and we recommend their submission immediately after approval. The first is the TCEQ District Registration Form in compliance with §49.054, §36.054, and §49.055 to cite three. The second is the Annual Filing Affidavit; §49.194.

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



Belton, Texas
February 6, 2013