

**DENTON COUNTY FRESH WATER
SUPPLY DISTRICT NO. 1-A**

FEDERAL SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2011

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Denton County Fresh Water Supply District No. 1-A
Denton County, Texas

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Denton County Fresh Water Supply District No. 1-A (the District) as of and for the year ended September 30, 2011, and have issued our report thereon dated March 30, 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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 11-01 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 11-02 to be a significant a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Denton County Fresh Water Supply District No. 1-A's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's written responses to the recommendations has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them

This report is intended for the information of the District's Board of Directors, the audit committee, the administration, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 30, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDNANCE WITH OMB CIRCULAR A-133, AND ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

Board of Directors
Denton County Fresh Water Supply District No. 1-A
Denton County, Texas

Compliance

We have audited the Denton County Fresh Water Supply District No. 1-A (the District)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended September 30, 2011. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Denton County Fresh Water Supply District No. 1-A as of and for the year ended September 30, 2011 and have issued our report dated March 30, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P

Dallas, Texas
March 30, 2012

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

I. Summary of the Auditor's Results:

Financial Statements

- a. An unqualified opinion was issued on the financial statements.
- b. Internal control over financial reporting:
 - Material weakness(es) identified? X Yes No
 - Significant deficiency(ies) identified that are not considered a material weakness? X Yes No
- c. Noncompliance material to financial statements noted Yes X No

Major Programs

- d. Internal control over major programs:
 - Material weakness(es) identified? Yes X No
 - Significant deficiency (ies) identified that are not considered a material weakness? Yes X None reported
- e. An unqualified opinion was issued on compliance for major programs.
- f. Any audit findings disclosed that were required to be reported under Section 510(a) or OMB Circular
 - A-133. Yes X No
- g. Identification of major programs:
 - 66.468 Capitalization Grants for Drinking Water State Revolving Funds
- h. The dollar threshold used to distinguish between type A and type B programs. \$300,000
- i. Auditee qualified as a low-risk auditee. Yes X No

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

FINDING 11-1

Criteria or Specific Requirement:

Reliability of financial reporting

Condition:

The working trial balances that were provided by the District required a significant number of journal entries in order to create financial statements that were in accordance with GAAP.

As is common within the system of internal control of most small organizations, the accounting department of the District has not prepared the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not previously established internal controls over the preparation of its financial statements complete with footnotes.

Effect:

Numerous journal entries needed to be made in order to reflect materially correct balances and activities in various accounts.

Cause:

Substantially all of the entries were to make accruals and other adjustments that should have been provided to and made by the accounting department. Historically, the accounting department was not as involved in the financial statement process and relied heavily on the auditor to ensure the compliance with GAAP. The accounting staff possesses relatively limited understanding of the prevailing accounting and reporting principles.

Recommendation:

Due to the size of the District and its operations the need for a controller who is a CPA is not required. However, as the District continues to grow and enter into more complex accounting and financial transactions, and the volume of transactions increases the importance of having the appropriate staffing requirements and job roles to address the financial activities of the District becomes more important, we recommend that the District dedicates the appropriate resources to the training of its current staff, the hiring of additional staff needed, and the development of accounting policies and procedures within the District to assist in improving the accounting function of the District.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*. – (Continued)

It is reasonable to estimate, based on the complexity of the financial system, and increasing demands of reporting, the District should add a senior level finance manager and two additional accounting technicians over the next few years.

Corrective action plan:

The District has made substantial staff changes within the last two years to address the District's growth requirements. The current staff is being educated in accounting practices that are specific to the District needs.

The deficit of staff in the accounting department will need to be further addressed by the 1-A Board to accommodate work flow and the recommendations of segregation of duties by the auditors.

FINDING 11-2

Criteria or Specific Requirement:

Reliability of financial reporting

Condition:

A formalized closing procedure has not been previously developed by the District related to year end requirements.

Effect:

Certain closing entries were not reflected in the trial balance provided for the audit.

Cause:

The District has been in a period of transition over the past few years. The District realized the need to improve the accounting functions and hired an individual within that period to help address those concerns. The District's accounting staff has spent the last two years learning the system, correcting data and integrity of information, and wasn't in a position to appropriately develop procedures.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*. – (Continued)

Recommendation:

We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. The due dates could be monitored to determine that they are being met.

Corrective action plan:

After participating in an audit where specific information was requested in varying timetables from the accounting department, it was apparent that the closing processes for year-end needed development. It is the intention of the accounting department to have a scheduled process in place to produce information, schedules and tables, required by the auditors, in a timely manner, for the year ending September 30, 2012. These processes are being implemented presently and will be maintained and verified on a regular basis throughout the September 30, 2012 fiscal year. The desired result will be an ability to start the audit process earlier and with consistent data.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**III. Findings and Questioned Costs for Federal Awards Including Audit Findings as
Described in I.f Above**

NONE

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

IV. Summary of Prior year Findings.

FINDING 10-1

Criteria or Specific Requirement:

Reliability of financial reporting

Condition:

The working trial balances that were provided by the District required a significant number of journal entries in order to create financial statements that were in accordance with GAAP.

As is common within the system of internal control of most small organizations, the accounting department of the District has not prepared the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not previously established internal controls over the preparation of its financial statements complete with footnotes.

Effect:

Numerous journal entries needed to be made in order to reflect materially correct balances and activities in various accounts.

Cause:

Substantially all of the entries were to make accruals and other adjustments that should have been provided to and made by the accounting department. Historically, the accounting department was not as involved in the financial statement process and relied heavily on the auditor to ensure the compliance with GAAP. The accounting staff possesses relatively limited understanding of the prevailing accounting and reporting principles.

Recommendation:

Due to the size of the District and its operations the need for a controller who is a CPA is not required. However, as the District continues to grow and enter into more complex accounting and financial transactions, and the volume of transactions increases the importance of having the appropriate staffing requirements and job roles to address the financial activities of the District becomes more important, we recommend that the District dedicates the appropriate resources to the training of its current staff, the hiring of additional staff needed, and the development of accounting policies and procedures within the District to assist in improving the accounting function of the District.

It is reasonable to estimate, based on the complexity of the financial system, and increasing demands of reporting, the District should add a senior level finance manager and two additional accounting technicians over the next few years.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

IV. Summary of Prior year Findings. – (Continued)

Corrective action plan:

The District has made substantial staff changes within the last two years to address the District's growth requirements. The current staff is being educated in accounting practices that are specific to the District needs.

The deficit of staff in the accounting department will need to be further addressed by the 1-A Board to accommodate work flow and the recommendations of segregation of duties by the auditors.

Status:

This was not corrected in fiscal year 2011.

FINDING 10-2

Criteria or Specific Requirement:

Reliability of financial reporting

Condition:

A formalized closing procedure has not been previously developed by the District related to year end requirements.

Effect:

Certain closing entries were not reflected in the trial balance provided for the audit.

Cause:

The District has been in a period of transition over the past few years. The District realized the need to improve the accounting functions and hired an individual within that period to help address those concerns. The District's accounting staff has spent the last two years learning the system, correcting data and integrity of information, and wasn't in a position to appropriately develop procedures.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

IV. Summary of Prior year Findings. – (Continued)

Recommendation:

We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. The due dates could be monitored to determine that they are being met.

Corrective action plan:

After participating in an audit where specific information was requested in varying timetables from the accounting department, it was apparent that the closing processes for year-end needed development. It is the intention of the accounting department to have a scheduled process in place to produce information, schedules and tables, required by the auditors, in a timely manner, at the end of the fiscal year ending September 30, 2012. These processes are being implemented presently and will be maintained and verified on a regular basis throughout the September 30, 2012 fiscal year. The desired result will be an ability to start the audit process earlier and with consistent data.

Status:

This was not corrected in fiscal year 2011.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY			
Direct Funding			
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	L100008	<u>\$ 3,219,813</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>3,219,813</u>
TOTAL EXPENDITURES			<u><u>\$ 3,219,813</u></u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE 1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all applicable federal awards of the Denton County Fresh Water Supply District No. 1-A (the District). The District's reporting entity is defined in Note 1 to the District's basic financial statements.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using modified accrual basis of accounting, which is described in Note 1 to the District's basic financial statements.

NOTE 3. FEDERALLY FUNDED LOAN PROGRAMS

The District participates in a federally-funded revolving loan program: the Capitalization Grants for Drinking Water State Revolving Funds – ARRA (CFDA No. 66.468). At September 30, 2011 the District had an outstanding loan balance of \$3,219,813 and had current year disbursements of loan proceeds of \$574,905.

NOTE 4. RELATIONSHIP TO FINANCIAL STATEMENTS

The federal assistance program activity is reported in the District's financial statements in the Ground Storage Capital Governmental Fund.

NOTE 5. CONTINGENCIES

The District participates in one grant program, which is governed by various rules and regulations of the grantor agency. Costs charged to the respective grant program are subject to audit and adjustment by grantor agency. Therefore, to the extent that the District has not complied with the rules and regulations governing the grant, refunds of any money received may be required, and the collectability of any related receivable at September 30, 2011 may be impaired. In the opinion of the management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grant.

NOTE 6. NON-CASH ASSISTANCE

During the fiscal year ended September 30, 2011 the District did not receive any non-cash federal assistance. At September 30, 2011 the District did not have any outstanding loans due to any federal agencies.