

# East Medina County Special Utility District

Report to the Board of Directors  
April 18, 2017





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April 18, 2017

To the Board of Directors  
East Medina County Special Utility District  
Devine, Texas

Dear Member of the Board of Directors:

We are pleased to present this report related to our audit of the financial statements of East Medina County Special Utility District (the District) as of and for the year ended December 31, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process.

This report is intended solely 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. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to these specified parties.

*RSM US LLP*

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## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

<u>Area</u>	<u>Comments</u>
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated November 10, 2016. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.
<b>Accounting Policies and Practices</b>	<p><b>Preferability of Accounting Policies and Practices</b> Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. Following is a description of significant accounting policies that were implemented during the year.</p> <p>During the year ended December 31, 2016, the District adopted the Governmental Accounting Standards Board (GASB) Statement No. 72, <i>Fair Value Measurement and Application</i>, and GASB Statement No. 79, <i>Certain External Investment Pools and Pool Participants</i>. Due to the nature of the investments held by the District, the adoption of GASB Statement No. 72 and GASB Statement No. 79 resulted in additional footnote disclosures. There was no effect on previously reported net position or fund balance.</p> <p><b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Management's Judgments and Accounting Estimates</b> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>

<b>Area</b>	<b>Comments</b>
<b>Audit Adjustments</b>	Audit adjustments proposed by us and recorded by the District are shown in the attached Summary of Recorded Audit Adjustments.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the District's basic financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	<p>No significant issues arising from the audit were discussed or the subject of correspondence with management, except as follows.</p> <p>During the audit, we discussed with the District's Business Manager the change in practice of recording the unbilled water sales at year end for the month of December to be full compliance with accounting principles generally accepted in the United States of America.</p>
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Letter Communicating Material Weakness in Internal Control Over Financial Reporting</b>	We have separately communicated the material weakness in internal control over financial reporting identified during our audit of the financial statements, and this communication is attached as Exhibit A.
<b>Significant Written Communication Between Management and Our Firm</b>	A copy of the significant written communication between our firm and the management of the District, the representation letter provided to us by management, is attached as Exhibit B.

## Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. Management may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the District's December 31, 2016, financial statements.

<u>Estimate</u>	<u>Accounting Policy</u>	<u>Management's Estimation Process</u>	<u>Basis for Our Conclusions on Reasonableness of Estimate</u>
<b>Useful Lives of Capital Assets</b>	The depreciable useful life of capital and intangible assets is set at the estimated useful life of the related asset.	The determination is made at the time the asset is placed into service and involves various judgments and assumptions based on prior experience.	We scanned useful lives of capital assets and tested capital asset additions. We believe the estimates used by management of the District are reasonable.
<b>Net Pension Liability—District's Share</b>	The District participates on a cost-sharing multiple employer defined benefit pension plan administered by the Texas County and District Retirement System (TCDRS). The District recorded its proportionate share of the liability associated with the TCDRS plan along with the corresponding deferred inflows and outflows.	TCDRS engages the services of a certified actuary to compute the liability based on information provided by participant employers (including the District) and key assumptions, including mortality rates, discount rates and inflation rates. TCDRS and the District review the actuarial results.	We analyzed the District's process, tested the underlying participant data, obtained the actuarial report and had an internal specialist review the significant assumptions and conclusions. We concluded that the estimates are reasonable.
<b>Unbilled Revenue</b>	The District records a receivable for the estimated amount of revenue related to water services provided that have not yet been billed as of the end of the year.	The estimate is based on past history and cycle billed after the end of the year.	We tested the information used to calculate the estimated receivable and concluded that management's estimates are reasonable.
<b>Allowance for Doubtful Accounts</b>	The allowance is based on the District's policy and current information available to management.	The allowance estimate is made based on the current policy on the allowance.	We tested the estimated allowance to the District's policy. We believe the estimates used by management are reasonable.

## Summary of Recorded Audit Adjustments

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Net Assets	Revenue	Expense
To record unbilled water for the month of December	\$ 124,758	\$ -	\$ 119,964	\$ 4,794	\$ -
To record capitalized interest	23,840	-	-	-	(23,840)
To adjust GASB Statement No. 68 entries to actual	19,725	37,419	-	-	17,694
To record note payable incurred for purchase of water rights	315,000	315,000	-	-	-
To accrue for purchases and construction costs that were incurred during the fiscal year, but paid after year-end	98,723	99,449	-	-	726
<b>Total effect</b>				<u>\$ 4,794</u>	<u>\$ (5,420)</u>
<b>Balance sheet effect</b>	<u>\$ 582,046</u>	<u>\$ 451,868</u>	119,964		
Income statement net effect			<u>10,214</u>		
<b>Total net asset effect</b>			<u>\$ 130,178</u>		

**Exhibit A—Letter Communicating Material Weakness in  
Internal Control Over Financial Reporting**



RSM US LLP

April 18, 2017

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To Management and the Board of Directors  
East Medina County Special Utility District  
Devine, Texas

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In planning and performing our audit of the financial statements of East Medina County Special Utility District (the District) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be a material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 following deficiency in the District's internal control to be a material weakness.

#### **Unbilled Water Sales**

Historically, the District's practice has been to bill and record its monthly water sales in the following month when the water is used. Based on this practice, ending net position was understated by the December sales. Over the past years, the District has grown and the December water sales have become significant to the financial statements; accordingly, in 2016, the District corrected this practice and recorded a prior period adjustment to reflect the unbilled water sales for the month of December to be in full compliance with accounting principles generally accepted in the United States of America. For fiscal year 2015, this adjustment increased accounts receivable—unbilled water sales by \$119,964 and increased beginning net position by \$119,596.

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We recommend the District measure and record its unbilled water sales earned through the end of its fiscal year-end in accordance with accounting standards generally accepted in the United States of America.

Following is a description of another identified deficiency in internal controls that we determined did not constitute a significant deficiency or material weakness.

**Capital Assets Accounting Software Module**

Over the years, we have maintained certain capital assets data and assisted the District with the calculation of depreciation. The accounting system now has capabilities for the District to fully maintain capital assets and calculate depreciation.

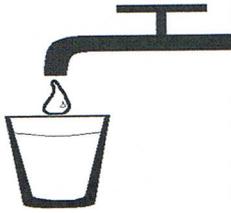
We recommend the District obtain the add-on software module to fully maintain capital assets. In addition, we will work with the District's Business Manager to transfer the capital asset data to this accounting module.

This communication is intended solely for the information and use of management, individuals charged with governance, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*RSM US LLP*

**Exhibit B—Significant Written Communication Between  
Management and Our Firm**

*E. M. C. S. U. D.*



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April 18, 2017

RSM US LLP  
100 N.E. Loop 410, Suite 1100  
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This representation letter is provided in connection with your audit of the basic financial statements of East Medina County Special Utility District (the "District"), as of and for the year ended December 31, 2016, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of April 18, 2017:

#### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated November 10, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

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8. We agree with the restatement of the previously issued financial statements described in Note 10. In that regard:
  - a. The restatement corrects an error in previously issued financial statements.
  - b. We were not aware of the error when those financial statements were issued.
  - c. We are not aware of any other errors in those financial statements.
  - d. We do not believe it is necessary to recall those financial statements and all users of those financial statements as they will receive a copy of the current year's financial statements and independent auditor's report.
9. We have no knowledge of any uncorrected misstatements in the financial statements.
10. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Arrangements with financial institutions involving restrictions on cash balances.
  - b. Net position classifications
  - c. Expenses and revenues have been appropriately classified
  - d. Future changes in accounting pronouncements for GASB Statement Nos. 74 and 75, which have been issued, but which have not yet been adopted. We don't believe GASB Statement Nos. 77, 78, and 81 will have an impact on our financial statements and therefore we did not disclose those standards as pending pronouncements.
11. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
12. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statements.

#### **Information Provided**

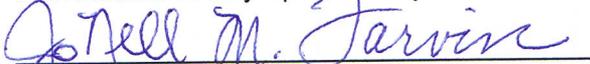
13. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit;
  - c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence; and
  - d. Minutes of the meetings of the governing board and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

14. All transactions have been recorded in the accounting records and are reflected in the financial statements.
15. It is our responsibility to establish and maintain internal controls over financial reporting. One of the components of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.
16. We have no knowledge of allegations of fraud or suspected fraud affecting the District's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements received in communications from employees, former employees, analysts, regulators, or others.
18. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements. Additionally, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit
19. We are not aware of any pending or threatened litigation and claims whose effects were considered when preparing the financial statements, and we have not consulted legal counsel concerning litigation or claims.
20. We have disclosed to you the identity of the District's related parties and all the related-party relationships and transactions of which we are aware.
21. We are aware of no significant deficiencies, in the design or operation of internal controls that could adversely affect the District's ability to record, process, summarize, and report financial data. We have informed you of a material weakness, in the design or operation of internal controls that could adversely affect the District's ability to record, process, summarize and report financial data.
22. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
23. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

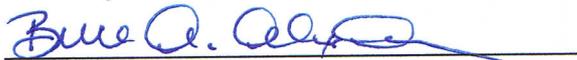
## Supplementary Information

24. With respect to supplementary information presented in relation to the financial statements as a whole:
- a. We acknowledge our responsibility for the presentation of such information.
  - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP and/or the Water District Financial Management Guide issued by the Texas Commission on Environmental Quality, as applicable.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. The underlying significant assumptions or interpretations regarding the measurement or presentation of such information include accounting and other records.
  - e. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
25. With respect to Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability, Schedule of the District's Pension Contributions, and Notes to the Required Supplementary Information - presented as required by GASB to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. The underlying significant assumptions or interpretations regarding the measurement or presentation of such information include accounting and other records.

East Medina County Special Utility District



JoNell M. Tarvin  
Secretary/Treasurer, Board of Directors



Bruce A. Alexander  
Superintendent



Debora L. DuBose  
Business Manager

