

# East Medina County Special Utility District

Report to the Board of Directors  
March 20, 2018





**RSM US LLP**

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March 20, 2018

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

Dear Members 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, 2017. 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 East Medina County Special Utility District.

*RSM US LLP*

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March 20, 2018

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

Attention: Members of the Board of Directors

This letter is to inform the Board of Directors of East Medina County Special Utility District (the District) about significant matters related to the conduct of our audit as of and for the year ended December 31, 2017, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

#### **The Respective Responsibilities of the Auditor and Management**

Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated November 14, 2017. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

#### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated November 14, 2017, 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.

#### **Significant Accounting Practices, Including Policies, Estimates and Disclosures**

In our meeting with you, we will discuss our views about the qualitative aspects of the District's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. The following is a list of the matters that will be discussed, including the significant estimates, which you may wish to monitor for your oversight responsibilities of the financial reporting process:

- Useful lives of capital assets
- Unbilled revenue
- Net pension liability and related disclosures

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**Audit Adjustments**

Management corrected the following misstatement that was identified as a result of our audit procedures:

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expense
To reconcile capital assets to actual per subledger	\$ 9,097	\$ -	\$ -	\$ -	\$ (9,097)
Total effect	\$ 9,097	\$ -	\$ -	\$ -	\$ (9,097)
Cumulative effect			\$ 9,097		

**Uncorrected Misstatements**

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

**Internal Control Matters**

We have issued a separate communication dated March 20, 2018, regarding a certain deficiency in internal control that we identified during the planning or performance of our audit of the financial statements, and this communication is attached as Exhibit A.

**Disagreements With Management**

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 financial statements.

**Consultation With Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

**Significant Issues Discussed or Subject to Correspondence With Management**

No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

**Difficulties Encountered in Performing the Audit**

We did not encounter any significant difficulties in dealing with management during the audit.

**Management Representations**

Attached is a copy of the management representation letter. This letter can be found in Exhibit B.

**Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to East Medina County Special Utility District.

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

*RSM US LLP*

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



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March 20, 2018

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

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, 2017, 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.

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 District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within the District are not repeated herein.

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

#### **Meter Reading Policy**

The District's policies and procedures state that every meter is to be read by the District on an annual basis. The District has 18 meter reading books that are read by field personnel as time and resources permit. Each completed book is returned to the office and the readings are entered into each account to verify the meter readings provided by customers each month. During our audit, we noted that seven of the 25 customer water billing accounts tested did not have the water meter read for verification within calendar year 2017.

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To Management and the Board of Directors  
East Medina County Special Utility District  
March 20, 2018  
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Due to the District's limited resources and growth over the past years, we recommend the District update and clarify its physical meter reading policy to ensure compliance.

**Status of Prior-Year Management Letter Comment**

***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.

***Fiscal year 2017 status:*** The District has obtained the capital assets module for its accounting software and is in the process of transferring the capital assets data to this module. We recommend the District continue to update the module as feasibly possible.

This communication is intended solely for the information and use of management, the Board of Directors 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.*

**EAST MEDINA COUNTY  
SPECIAL UTILITY DISTRICT**

P. O. BOX 628

DEVINE, TEXAS 78016

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*DIRECTORS: Timothy L. Hildenbrand-President, Caroline A. Nentwich-Vice President, Barbara L. Gilliam-2<sup>nd</sup> Vice President, JoNell M. Tarvin-Secretary/Treasurer, Richard A. Sultenfuss-Member, Hector De La Fuente -Member, and Roy J. Tschirhart, Jr. -Member*

March 20, 2018

RSM US LLP  
100 N.E. Loop 410, Suite 1100  
San Antonio, TX 78216

This representation letter is provided in connection with your audits of the basic financial statements of East Medina County Special Utility District (the District), as of and for the years ended December 31, 2017 and 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 March 20, 2018:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated November 14, 2017, 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. There are no events subsequent to the date of the financial statements, for which U.S. GAAP requires adjustment or disclosure.
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 have no knowledge of any uncorrected misstatements in the financial statements.
9. We have substantially omitted the compensated absence rollforward disclosure from the financial statements as the liability at year end is not material.
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.
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.
13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, 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.
14. We have no knowledge of any uncorrected misstatements in the financial statements.

**Information Provided**

15. 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 audits;
  - 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.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
17. 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.

18. 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.
19. 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.
20. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
21. 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.
22. 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.
23. We are not aware of any significant deficiencies or material weaknesses, in the design or operation of internal controls that could adversely affect the District's ability to record, process, summarize, and report financial data.
24. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
25. 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**

26. 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.
27. 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 U.S GAAP.
  - 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

