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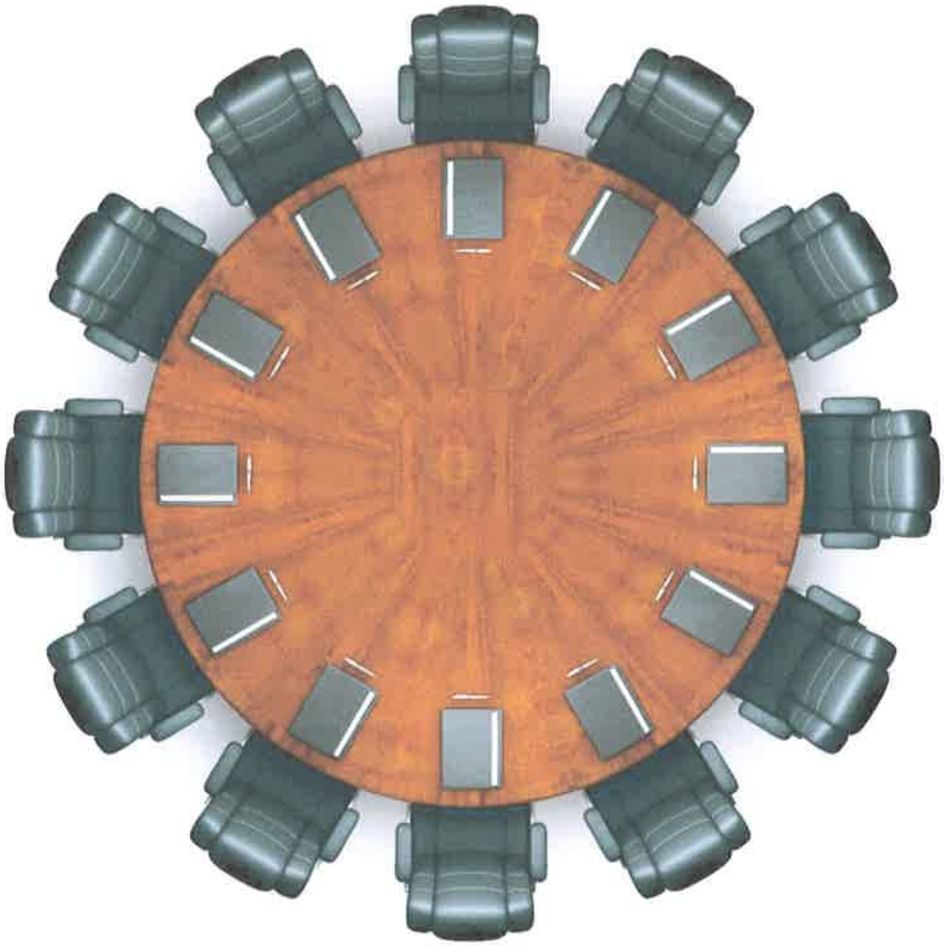

Upper Trinity Regional Water District

Results of the Audit Including Control-Related Matters

Deloitte.

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March 22, 2018

Members of the Board of Directors
Upper Trinity Regional Water District
Lewisville, Texas

Dear Members of the Board of Directors:

We have performed an audit of the basic financial statements of Upper Trinity Regional Water District (the "District") as of and for the year ended September 30, 2017 (the "financial statements"), in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated March 22, 2018.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the District is responsible.

This report 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.

Yours truly,

Deloitte & Touche LLP

cc: The Management of the Upper Trinity Regional Water District

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated September 28, 2017. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the District's financial statements for the year ended September 30, 2017, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances 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 not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Significant Accounting Policies

The District's significant accounting policies are set forth in Note 1 to the District's 2017 financial statements. We are not aware of any significant changes in previously adopted accounting policies or their application during the year ended September 30, 2017.

We have evaluated the significant qualitative aspects of the District's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events.

Uncorrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no uncorrected misstatements or disclosure items passed identified during our audit.

Material Corrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no material misstatements that were brought to the attention of management as a result of our audit procedures.

Other Information in the Comprehensive Annual Financial Report

When audited financial statements are included in documents containing other information such as the District's Comprehensive Annual Financial Report ("CAFR"), we read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We have read the other information in the District's CAFR and have inquired as to the methods of measurement and presentation of such information. We did not note any material inconsistencies or obtain knowledge of a material misstatement of fact in the other information.

Disagreements with Management

We have not had any disagreements with management related to matters that are material to the District's 2017 financial statements.

Our Views about Significant Matters That Were the Subject of Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2017.

Significant Findings or Issues Discussed, or Subject of Correspondence, with Management Prior to Our Initial Engagement or Retention

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

Other Significant Findings or Issues Arising From the Audit Discussed, or Subject of Correspondence, with Management

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Directors.

Significant Difficulties Encountered in Performing the Audit

In our judgment, we received the full cooperation of the District's management and staff and had unrestricted access to the District's senior management in the performance of our audit.

Management's Representations

We have made specific inquiries of the District's management about the representations embodied in the financial statements. In addition, we have requested that management provide to us the written representations the District is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we have requested from management.

Control-Related Matters

We have identified, and included in Appendix B, a matter involving the District's internal control over financial reporting that we consider to be a significant deficiency under generally accepted auditing standards. We have also identified, and included in Appendix B, other matters involving the District's internal control over financial reporting as of September 30, 2017, that we wish to bring to your attention.

The definitions of a deficiency, a material weakness, and a significant deficiency are also set forth in Appendix B.

* * * * * *

APPENDIX A

Management Representations

To be printed on Upper Trinity Regional Water District Letterhead

March 22, 2018

Deloitte & Touche LLP
2200 Ross Avenue, Suite 1600,
Dallas, TX 75201-6778

We are providing this letter in connection with your audit of the financial statements of the business-type activities and the discretely presented component unit of the Upper Trinity Regional Water District (the "District"), as of and for the year ended September 30, 2017, which collectively comprise the District's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the District in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the basic financial statements of financial position of business-type activities, and the discretely presented component unit, in conformity with GAAP

b. 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

   - To prevent and detect fraud

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in accordance with GAAP. In addition:

   a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

c. Deposits and investment securities are properly classified in the category of custodial credit risk.

d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

e. Required supplementary information is measured and presented within prescribed guidelines.

f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

g. Intersystem and inter-entity activity and balances have been appropriately classified and reported.

2. The District has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The District has made available to you:

   a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

   b. All financial records and related data for all financial transactions of the District and for all funds administered by the District. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the District and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

4. There has been no:

   a. Action taken by District management that contravenes the provisions of federal laws and State of Texas laws and regulations, or of contracts and grants applicable to the District

   b. Communication with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. The District has disclosed to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the District involving:

   a. Management.

b. Employees who have significant roles in internal control over financial reporting.

c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, analysts, regulators, or others. Management has disclosed to you and the Board an improper payment transaction occurring during fiscal year 2018 in the approximate amount of $789,000 perpetrated against the District by an outside party.

8. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

10. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the District each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

11. The District has appropriately identified and disclosed all segments in accordance with GASB Codification Section 2500, *Segment Information*.

12. Tax-exempt bonds issued have retained their tax-exempt status.

13. Significant assumptions used by us in making accounting estimates are reasonable.

14. As disclosed in Note 13 to the financial statements, the Governmental Accounting Standards Board has issued the following new accounting pronouncements:

    - Statement No. 81, *Irrevocable Split-Interest Agreements*;
    - Statement No. 83, *Certain Asset Retirement Obligations*;
    - Statement No. 84, *Fiduciary Activities*;
    - Statement No. 85, *Omnibus 2017*
    - Statement No. 86, *Certain Debt Extinguishment Issues*; and
    - Statement No. 87, *Leases*.

    Management of the District has not yet determined the impact of these statements on the basic financial statements.

15. The District has recorded its investment in Texpool investment pools at amortized cost as of September 30, 2017. We have evaluated the criteria in GASB Statement 79, *Certain External Investment Pools and Pool Participants* paragraph 4 and have determined that the pools measured at amortized cost meet the criteria for amortized cost reporting.

16. The District has appropriately identified and recorded all intangible assets under GASB Codification Section 1400.138—1400.152, *Intangible Assets*

Except where otherwise stated below, immaterial matters less than $712,000 collectively for the District, and $260 collectively for the discretely presented component unit are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

17. There are no transactions that have not been properly recorded and reflected in the accounting records underlying the financial statements.

18. The District has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

19. Regarding related parties:

    a. 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.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

20. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events

    b. The effect of the change would be material to the financial statements.

21. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.

22. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

23. The District has complied with all aspects of contractual agreements that affect the financial statements.

24. No department or system of the District has reported a material instance of noncompliance to us.

25. The District has no derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*.

26. No events have occurred after September 30, 2017, but before March 22, 2018, the date the financial statements were issued, that require consideration as adjustments to or disclosures in the financial statements.

27. The District has determined a capital asset has been impaired in accordance with GASB Codification Section 1400.180-1400.200, *Impairment of Capital Assets*. In making this determination, the District considered the following factors:

    a. The magnitude of the decline in service utility is significant

    b. The decline in service utility is unexpected.

28. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.

29. There are no changes in internal control or other factors that might significantly affect internal control that have occurred subsequent to September 30, 2017.

30. Management believes that all accounts receivable related to water revenues and other contracts are considered fully collectible as of September 30, 2017, and, accordingly, no provision for uncollectible accounts has been recorded.

31. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information

    b. The required supplementary information is measured and presented in accordance with GASB Standards

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

32. Regarding supplementary information:

    a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with statutory requirements of the Texas Commission on Environmental Quality ("the requirements")

    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with the requirements

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

33. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America

    c. No events have occurred after September 30, 2017, but before March 22, 2018, the date the financial statements were issued, that require adjustment to the fair value measurements and disclosures included in the financial statements.

34. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value, if applicable.

35. We agree with the findings of management's expert in evaluating the liability for health claims (IBNR) and have adequately considered the qualifications of management's expert in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to management's expert with respect to values or amounts derived in an attempt to bias his or her work, and we are not aware of any matters that have affected the independence or objectivity of management's expert.

Thomas E. Taylor, Executive Director

Larry N. Patterson, Deputy Executive Director

William A. Greenleaf, Director of Business Services

Lester T. Harris, Accounting Manager

APPENDIX B

Section I—Significant Deficiency

We consider the following deficiency in the District's internal control over financial reporting to be a significant deficiency as of September 30, 2017:

Finding 2017—01 Entity Wide Risk Assessment—Training, Establishment, and Revision of Policies and Procedures

Finding—The District's "Disbursement of Funds and Check Signing Policy" requires that "all checks, drafts and other instruments for expenditures of $100,000 or more shall require two signatures, one of which must be an officer of the District; and countersigned by the Executive Director (or designee)." While the District has procedures in place for large disbursements, whether by check, draft or other instrument, and has implemented segregation of duties policies, including the separation of initiation from authorization of wires in the bank account system, electronic control procedures in the bank portal over wire transfers exceeding the dollar thresholds established by the District's policy are not in place to allow for the additional approval of the Executive Director or Board Officer on large disbursements made by wire transfers. Although the District executed a limited number of wires to a single vendor and the supporting documentation was approved for payment by the required approvers prior to the execution of the wire, the authorization of the wire transfers per District policy was not properly established or implemented.

Additionally, the District's internal control policies require that the District Business Department staff perform a monthly Accounts Payable reconciliation that is reviewed by an independent reviewer. For the last three months of fiscal year 2017, these reconciliations were not performed in a timely manner. It should be noted that weekly reconciliations were performed throughout the fiscal year by the Cash Coordinator, though not all of the relevant supporting documentation was retained. As of January 2018, monthly reconciliations are current.

Background—The District has developed and maintains an entity-wide Fraud Risk Assessment and Procedures Manual ("Manual") that is a detailed and comprehensive manual designed to address the District's potential risks of fraud and error and document the related internal control policies and procedures currently adopted and in force. The Manual was adopted by the Board of Directors and any changes are brought to the Audit Committee for review and approval.

We noted that while management maintains the Manual, not all employees may utilize the complete or most current version of the Manual. Additionally, while each department was represented in developing and updating the risk assessment, not all department employees may be well trained and well versed in the evolving risks of fraud and/or error that exist today.

In addition, while the Manual is comprehensive and addresses the material and routine transactions and business events of the District, there are certain events and transactions that may occur less frequently, such as changes to the vendor master files and payroll files, and certain banking transactions, such as bank authorizations required over a certain threshold to match District policies, that are not adequately addressed.

Recommendation—The District should have a process in place to ensure that policies and procedures such as timely reconciliations and authorizations are adhered to. In addition, the District's Fraud Risk Assessment and Procedures Manual should be revisited in detail to protect the District against the risk of fraud and error, as the environment and the risks of fraud are constantly changing and evolving. To ensure that internal controls reflect current resources and best practices, consider:

- Reviewing policies and procedures in place to address evolving risks, including a review of the Manual. Updates should be made immediately to address known weaknesses and updated manuals should be made accessible to all employees.
- Given that the District does not have an internal audit department that performs ongoing or continuous audit procedures on internal controls, consider engaging an outside party to perform testing of operating effectiveness of internal controls on a periodic basis to determine whether the identified controls properly mitigate the District's assessed risks to an acceptable level.
- Providing training on a routine basis to all employees on the risks of fraud as they apply to the District in a way that is made meaningful to the jobs and tasks that they regularly perform. Policies and procedures should be enforced as written.

Section II—Other Matters

The Governmental Accounting Standards Board (GASB) has issued a number of new accounting pronouncements become effective in future fiscal years. Such pronouncements should be evaluated by management to determine what impact, if any, they have on the District's financial statements upon implementation.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015 and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It is effective for fiscal 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued in March 2016 and requires a recognition of assets, liabilities, and deferred inflows of resources at the inception of the irrevocable split-interest agreement (an agreement where a donor gives to two or more beneficiaries). The new pronouncement also requires governments to recognize assets that are administered by third parties if the government controls the present service capacity (when resources become applicable to the reporting period). It is effective for fiscal 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued in November 2016 and addresses the accounting and reporting of a legally enforceable liability associated with the retirement of a tangible capital asset (that is, the tangible capital asset is permanently removed from service). Such retirement encompasses its sale, abandonment, recycling, or disposal in some other manner. Examples include the decommissioning of nuclear reactors, removal and disposal of wind turbines in wind farms, dismantling and removal of sewage treatment plants, and removal and disposal of x-ray machines. This statement is effective for fiscal 2019.

GASB Statement 84, *Fiduciary Activities*, was issued in January 2017 and establishes criteria for reporting fiduciary activity in one of four types of fiduciary funds: (1) pension and other employee benefit trust funds; (2) investment trust funds; (3) private purpose trust funds; and (4) custodial funds. This statement further clarifies accounting and reporting of fiduciary component units and whether and how business type activities should report fiduciary activities. It is effective for fiscal 2020.

GASB Statement No. 85, *Omnibus 2017*, was issued in March 2017 and addresses a variety of practice issues related to blended component units in business type-activity presentations, goodwill, fair value measurement and application, and pension and OPEB issues. This statement becomes effective in fiscal 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued in May 2017 and addresses the accounting for in-substance defeasances of debt paid from existing resources. This standard clarifies that the accounting is essentially the same whether the proceeds from a refunding or existing resources are placed in a trust in an in-substance defeasance transaction. This statement is effective for fiscal 2018.

GASB Statement No. 87, *Leases*, was issued in June 2017 and changes the accounting for leases to require all leases be recorded using a single model that presumes that all leases are the financing of the underlying right to use asset, unless certain exceptions are met (primarily a term of 12 months or less). This becomes effective in fiscal 2021.

Section III—Definitions

The definitions of a deficiency, material weakness, and a significant deficiency are as follows:

A *deficiency* in internal control over financial reporting 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 over financial reporting, 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.

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

* * * * * *