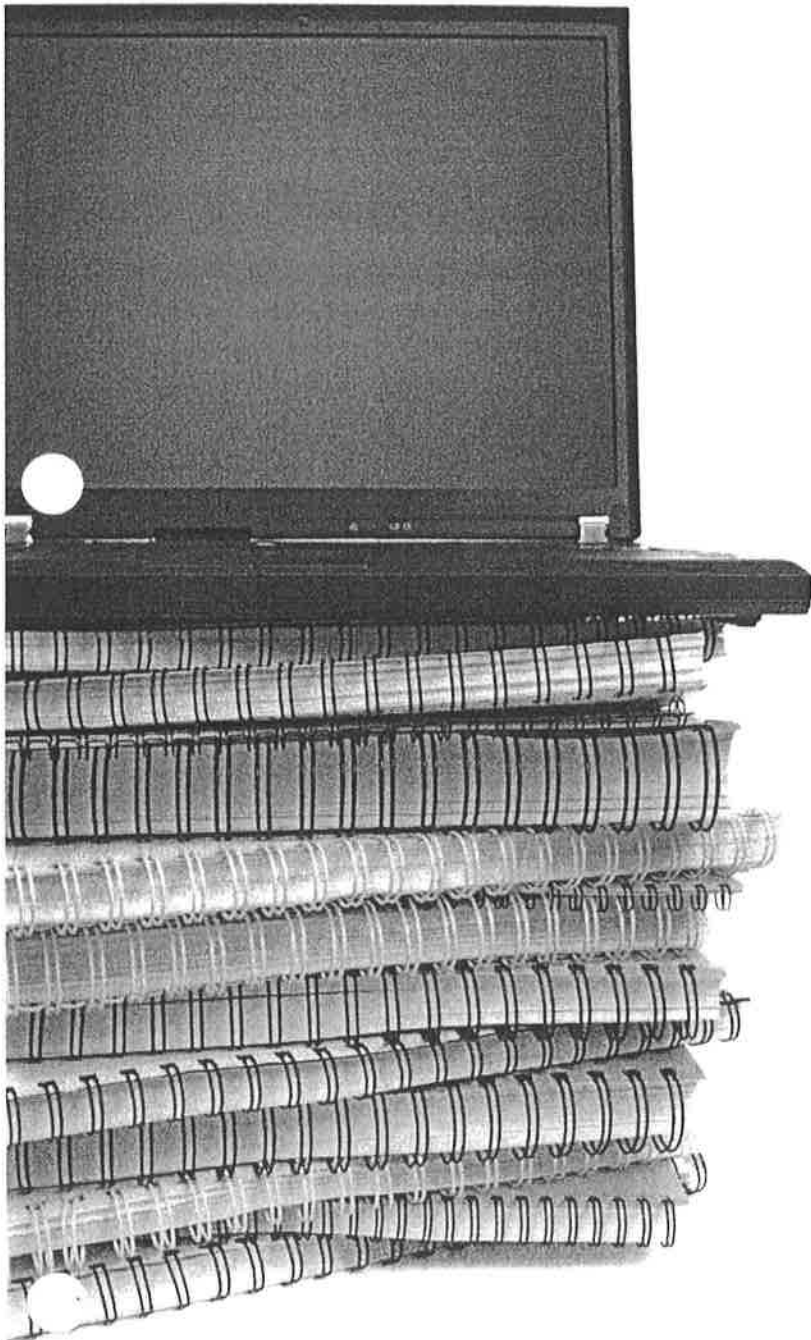


Deloitte.



Upper Trinity
Regional Water
District

Results of the
Audit Including
Control-Related
Matters

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated October 6, 2016. 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, 2016, 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 2016 financial statements. The District adopted changes in accounting policies to implement the requirements of GASB Statement No. 72, *Fair Value Measurement and Application*. These policies relate to the valuation, disclosure, and related accounting for investments and are discussed in Note 2 to the District's financial statements. We are not aware of any other significant changes in previously adopted accounting policies or their application during the year ended September 30, 2016.

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.

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 also identified, and included in Appendix B, other matters involving the District's internal control over financial reporting as of September 30, 2016, that we wish to bring to your attention.

* * * * *

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.

- Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*;
- Statement No. 83, *Certain Asset Retirement Obligations*; and
- Statement No. 84, *Fiduciary Activities*.

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

15. 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 \$600,000 collectively for the District, and \$850 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.

16. There are no transactions that have not been properly recorded and reflected in the accounting records underlying the financial statements.
17. The District has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
18. 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.
19. In preparing the financial statements in conformity 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.
20. There are no:
- a. Instance of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

- 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, 2016, but before February 20, 2017, 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

William A. Greenleaf, Director of Business Services

Lester T. Harris, Accounting Manager

liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. It is effective in fiscal 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address:

- (1) how the external investment pool transacts with participants;
- (2) requirements for portfolio maturity, quality, diversification, and liquidity; and
- (3) calculation and requirements of a shadow price.

Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes.

Most requirements of this were effective and implemented the current fiscal year. However, certain provisions on portfolio quality, custodial credit risk, and shadow pricing become effective in fiscal year 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, was issued in January 2016 and amends the scope and applicability of Statement 14 by removing the blending requirements for financial statement presentation of the component units of all state and local governments. However, there is still a criterion for blending of a component unit if it is a not-for-profit corporation in which the primary government is the sole corporate member. This statement establishes increased comparability across government entities. It is effective in fiscal 2017.

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 in fiscal 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued in March 2016 and amends statements 67, 68, and 73 to instead require the presentation of covered payroll (payroll on which contributions to a pension plan are based) and ratios that use the measure by removing deviations and clarifying that payments by an employer to satisfy contribution requirements should be classified as plan member contributions (for statement 67) and employee contributions (for statement 68). Furthermore, those expenses by the employer for those amounts are recognized in the period for which the contribution is assessed and are classified as other compensations outside of pensions (i.e. fringe benefits, etc.). There are several start dates depending on the circumstance surrounding an entity. It is effective in fiscal 2017.

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