

COUNTY LINE SPECIAL UTILITY DISTRICT

FINANCIAL STATEMENTS AND AUDITOR'S REPORT
December 31, 2012

WITH SUPPLEMENTAL INFORMATION

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MANAGEMENT'S DISCUSSION & ANALYSIS

MANAGEMENT'S DISCUSSION & ANALYSIS

Using this Annual Report

Within this section of the County Line Special Utility District (the District) annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2012. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. This analysis should be read in conjunction with the basic financial statements that follow this section.

Financial Highlights

The District's financial position at fiscal year-end 2012 showed total net assets of \$4.98 million compared to \$4.80million at fiscal year-end 2011. Of these amounts, assets that were unrestricted for meeting the District's ongoing obligations were \$4.81 million and \$4.39 million at the fiscal years ended 2012 and 2011, respectively.

The following condensed Statement of Total Net Assets and Statement of Changes in Net Assets indicates performance of the District.

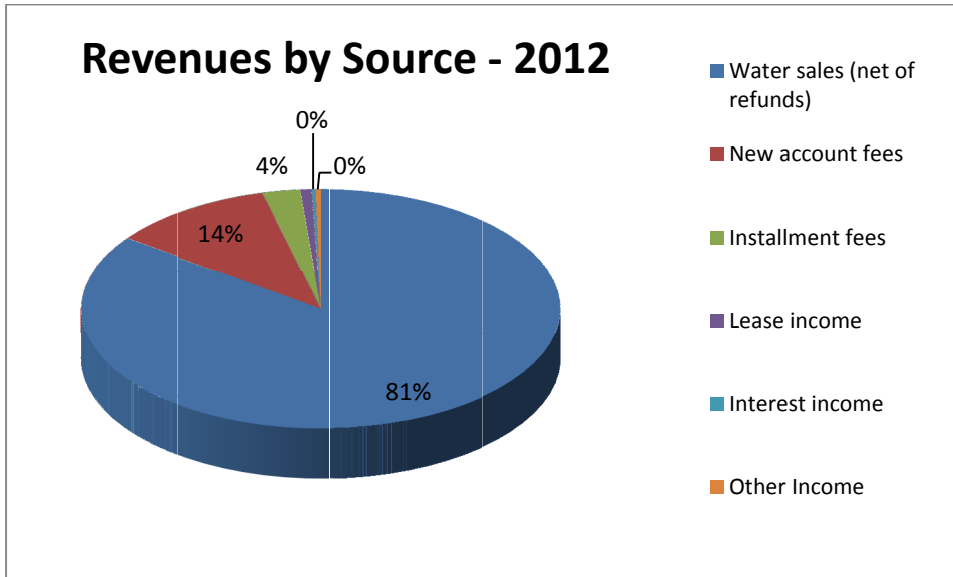
Total Net Assets	2012	2011
Current and other assets	\$ 2,787,198	\$ 2,369,334
Capital assets	7,906,199	8,038,330
Total assets	10,693,398	10,407,664
Current liabilities	959,688	665,834
Non-current liabilities outstanding	4,753,291	4,936,812
Total liabilities	5,712,979	5,602,646
Net Assets	\$ 4,980,419	\$ 4,805,018
Temporarily Restricted	\$ 172,297	\$ 410,447
Unrestricted	4,808,121	4,394,571
Total Net Assets	\$ 4,980,418	\$ 4,805,018

Total revenues for fiscal year 2012 were \$1.95 million, an increase of \$43 thousand. Increased accounts and meters were the primary sources of this increase. Operations expense for 2012 was \$1.43 million, an increase of \$32 thousand. Administrations expense was \$103 thousand, a decrease of \$26 thousand.

Changes in Net Assets

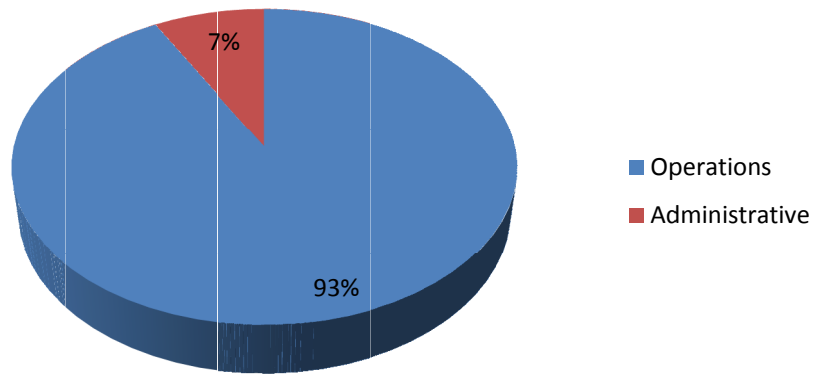
	<u>2012</u>	<u>2011</u>
Revenues:		
Water revenues	\$ 1,579,426	\$ 1,623,910
Other revenues	369,344	282,237
Interest earned	5,226	4,601
Total revenues	<u>1,953,996</u>	<u>1,910,748</u>
Expenses:		
Operations	1,437,054	1,468,858
Administrative	103,383	129,262
Total expenses	<u>1,540,437</u>	<u>1,706,790</u>
Net Income before Changes to Capital	413,559	312,628
Changes to Capital	(238,150)	3,219
Change in Net Assets	175,409	315,847
Total Net Assets - Beginning of Year	4,805,009	4,489,171
Total Net Assets - End of Year	<u>\$ 4,980,418</u>	<u>\$ 4,805,018</u>

Revenues by source in fiscal year 2012 consisted of 81% of water revenues, 14% of new account fees.



Total expense for fiscal year 2012 was \$1.54 million. Of this amount, \$1.43 million, or 93% was operations expense.

Functional Expenses - 2012



Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in statements.



Serving the San Antonio + Austin Corridor

Independent Auditor's Report

Board of Directors
County Line Special Utility District
Fentress, Texas

We have audited the accompanying financial statements of the business-type activities of the County Line Special Utility District (District) as of and for the year ended December 31, 2012, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles generally accepted in the United States of America, this includes 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.

Auditor's Responsibility

Our responsibility is to express opinion on these financial statements based on our audit. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities of the County Line Special Utility District as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 and the supplement schedules presented on pages 14 through 16. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standard generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Stephen W Cook

Stephen W. Cook, CPA
February 20, 2013

FINANCIAL STATEMENTS

COUNTY LINE SPECIAL UTILITY DISTRICT

STATEMENT OF FINANCIAL POSITION

December 31, 2012

Assets

Current Assets

Cash and cash equivalents	\$ 326,866
Investments	1,686,448
Water fees receivable (net)	165,243
Due from developers	549,850
Inventory	19,660
Prepaid assets	39,131
Total Current Assets	<u>2,787,198</u>

Capital Assets

Land and easements	101,660
Water rights	1,874,390
SUD Conversion & legal fees (net of amortization)	140,318
Building, Plant and Equipment (net of depreciation)	<u>5,789,831</u>
Total Capital Assets	<u>7,906,199</u>

Total Assets \$ 10,693,397

Liabilities and Net Assets

Current Liabilities

Accrued benefits	\$ 8,654
Accounts payable	0
Deferred revenues	448,015
Accrued interest payable	26,747
Customer deposits payable	292,291
Current portion of long-term debt	<u>183,981</u>
Total Current Liabilities	959,688

Notes payable, net of current portion 4,753,291
Total Liabilities 5,712,979

Net Assets

Unrestricted	4,808,121
Temporarily restricted	<u>172,297</u>
Total Net Assets	<u>4,980,418</u>

Total Liabilities and Net Assets \$ 10,693,397

The notes to the financial statements are an integral part of these statements.

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2012

Revenue	
Water revenues	\$ 1,579,426
Other revenues	369,344
Interest earned	<u>5,226</u>
Total Revenue	<u>1,953,996</u>
Expenses	
Operations	1,437,054
Administrative	<u>103,383</u>
Total Expenses	<u>1,540,437</u>
Increase in Unrestricted Net Assets	<u>413,559</u>
Temporarily Restricted Net Assets	
Net Assets, beginning of year	410,447
Contributions for bond payments	
Reclass memberships to deposits	<u>(238,150)</u>
Increase in Temporarily Restricted Net Assets	<u>172,296</u>
Net Assets, beginning of year	4,394,563
Net Assets, end of year	<u><u>\$ 4,980,418</u></u>

The notes to the financial statements are an integral part of these statements.

COUNTY LINE SPECIAL UTILITY DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2012

Operating Activities

Change in Net Assets	\$ 413,559
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and Amortization	239,948
Accounts Receivable	(17,786)
Inventory	1,665
Other Current Assets	(30,220)
Accrued bond interest	26,747
Accounts Payable and Accrued Liabilities	(25,066)
Customer deposits	54,141
	<u>249,429</u>
Net cash provided by operating activities	662,988

Investing Activities

Increase in Assets Recorded	<u>(107,818)</u>
Net cash (used) by investing activities	<u>(107,818)</u>

Financing Activities

Payments on Long-Term Debt	<u>(183,522)</u>
Net cash (used) in financing activities	<u>(183,522)</u>

Net Increase (Decrease) in Cash and Investments 371,648

Cash and Investments - beginning of the year 1,641,666

Cash and Investments - end of the year \$ 2,013,314

The notes to the financial statements are an integral part of these statements.

SUPPLEMENTAL SCHEDULES

COUNTY LINE SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULE - ONE
COMPARATIVE SCHEDULE OF WATER AND RELATED REVENUES
For the Year Ended December 31, 2012

	<u>2012</u>
Water sales (net of refunds)	\$ 1,579,426
New account fees	273,571
Installment fees	74,128
Lease income	15,870
Interest income	5,226
Other Income	5,775
	<u><u>\$ 1,953,996</u></u>

The notes to the financial statements are an integral part of these statements.

COUNTY LINE SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULE - TWO
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

	<u>Operations</u>	<u>Administrative</u>	<u>Total</u>
Salaries	\$ 147,290	\$ 39,812	\$ 187,102
Payroll taxes	12,176	3,349	15,525
Benefits	15,288	6,351	21,639
Bank fees		16	16
CRWA expenses	533,517	0	533,517
Dues and fees	5,007	0	5,007
EAA water rights	21,305	0	21,305
Engineering expenses	1,255	0	1,255
Insurance	(180)	0	(180)
Interest expense	290,452	0	290,452
Legal and accounting	0	6,773	6,773
Meeting expenses	0	1,038	1,038
Office supplies	0	14,718	14,718
Postage and freight	0	7,208	7,208
RM-distribution system-materials	51,148	0	51,148
RM-distribution system-labor	27,458	0	27,458
RM-plant-materials	4,420	0	4,420
RM-plant-labor	20,355	0	20,355
RM-plant-other	14,373	2,000	16,373
Stipend	0	9,613	9,613
Taxes	0	644	644
Training and development	903	0	903
Telephone and communication	0	5,978	5,978
Utilities	30,922	0	30,922
Vehicle	13,049	0	13,049
Uniforms	2,895	0	2,895
Other expenses	11,131	225	11,356
Amortization	0	3,930	3,930
Depreciation	234,290	1,728	236,018
	<u>\$ 1,437,054</u>	<u>\$ 103,383</u>	<u>\$ 1,540,437</u>

The notes to the financial statements are an integral part of these statements.

COUNTY LINE SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULE - THREE
SCHEDULE OF FUNCTIONAL EXPENSES - ACTUAL vs BUDGET
For the Year Ended December 31, 2012

	Operating		Administrative		Totals	
	Actual	Budget	Actual	Budget	Actual	Budget
Salaries	\$ 147,290	\$ 142,200	\$ 39,812	\$ 37,800	\$ 187,102	\$ 180,000
Payroll taxes	12,176	11,060	3,349	2,940	15,525	14,000
Benefits	15,288	0	6,351	0	21,639	0
Bank fees			16	0	16	0
CRWA expenses	533,517	710,574	0	0	533,517	710,574
EAA water rights	21,305	13,697	0	0	21,305	13,697
Dues and fees	5,007	4,000	0	0	5,007	4,000
Engineering expenses	1,255	25,000	0	0	1,255	25,000
Insurance	(180)	15,328	0	9,002	(180)	24,330
Interest expense	290,452	261,000	0	0	290,452	261,000
Legal and accounting	0	0	6,773	15,560	6,773	15,560
Meeting expenses	0	0	1,038	1,500	1,038	1,500
Office supplies	0	0	14,718	11,000	14,718	11,000
Postage and freight	0	0	7,208	6,500	7,208	6,500
RM-distribution system-material	51,148	95,000	0	0	51,148	95,000
RM-distribution system-labor	27,458	20,000	0	0	27,458	20,000
RM-plant-materials	4,420	2,000	0	0	4,420	2,000
RM-plant-labor	20,355	4,000	0	0	20,355	4,000
RM-plant-other	14,373	11,800	2,000	0	16,373	11,800
Stipend	0	10,000	9,613	0	9,613	10,000
Taxes	0	0	644	0	644	0
Training and development	903	6,000	0	0	903	6,000
Telephone and communication	0	0	5,978	7,300	5,978	7,300
Utilities	30,922	44,000	0	0	30,922	44,000
Vehicle	13,049	12,500	0	0	13,049	12,500
Uniforms	2,895	3,000	0	0	2,895	3,000
Other expenses	11,131	20,713	225	0	11,356	20,713
Amortization	0	0	3,930	0	3,930	0
Depreciation	234,290	0	1,728	0	236,018	0
	<u>\$ 1,437,054</u>	<u>\$ 1,411,872</u>	<u>\$ 103,383</u>	<u>\$ 91,602</u>	<u>\$ 1,540,437</u>	<u>\$ 1,503,474</u>

The notes to the financial statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

County Line Special Utility District (the District) was created pursuant to the provision of Texas Water Code, Chapters 49 and 65 and Texas Administrative Code 293.11 and 293.12 to purchase, own, hold, lease and otherwise acquire sources of water supply; to build, operate and maintain facilities for the transportation of water; and to sell water and wastewater services to towns, cities, and other political subdivisions of this state, to private business entities and to individuals. County Line Water Supply Company was dissolved and all assets and liabilities and equity of that organization were transferred to the newly created County Line Special Utility District. This transfer took place on June 1, 2010, for financial reporting purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Directors (Board), a seven member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to providing water services within the jurisdiction of the County Line Special Utility District. Members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters.

The Corporation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For Profit Organization*. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Corporation is required to present a statement of cash flows. Temporarily restricted assets consist of bond payments in reserve and membership fees.

A. Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Budget

An unappropriated budget is adopted for the District. The budget is prepared using the same method of accounting as for financial reporting.

The budget amounts shown in the financial statements represent the original appropriation and any amendments as adopted during the year. Unused appropriations lapse at the end of the year. The budget was properly amended as needed by the District. The budget is approved and adopted by the District. Any loan or grant applications are approved by the District prior to submission to the appropriate agencies.

C. Cash and Temporary Investments (Cash Equivalents)

The District's cash and temporary investments consist of cash on hand, amounts in demand deposits, and money market funds. The District classifies certificates of deposit with maturities greater than three months as investments.

D. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gain are recognized.

E. Water Receivables

All receivables are reported at their gross value. The District uses the direct write-off method to account for bad debt. No allowance for bad debt is used. Estimated unbilled revenues for water fees have not been recognized as of the end of the year as they are considered immaterial.

F. Due From Developers/Deferred Revenues

The District has adopted a policy regarding the development of currently unimproved lots by developers. The developer purchases the District's service at the prevailing rate at the date of the agreement. The developer then pays the District approximately one half of the total fee at the time of contract execution. These revenues are prepaid in nature because no service has been rendered, and are, therefore, categorized as deferred revenues. These revenues are recognized into income as each lot is placed in service.

The unpaid balance of the contract amount, at the time of the execution of the developer contract, is recognized as a receivable under the caption of "Due from developers".

G. Inventory

The District records purchases of inventories as expenditures, or expenses, as appropriate at the time of purchase. Inventories consist primarily of supplies and chemicals, and are recorded at cost.

H. Property, Plant and Equipment

It is the District's policy to capitalize property and equipment. The District defines property, plant and equipment as assets with an initial valued cost of \$1000 or more, and an estimated useful life in excess of one year. Property and equipment are recorded at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements which add substantial life are capitalized and are depreciated over their remaining useful lives using the straight-line method as follows:

	Est. Depreciable Life
Distribution System	40-50 Yrs
Van Trailer and Improvements	10-50 Yrs
Machinery and Equipment	5-30 Yrs
Fencing	20 Yrs
Building	20 Yrs
Furniture and Fixtures	3-10 Yrs
Communication Equipment	10 Yrs
Other depreciable assets	5-8 Yrs

I. Amortization of SUD Conversion

The District's membership voted in 2001 and approved the conversion from its then current status to a Special Utility District under Chapter 65 of the Texas Water Code. Section 65.014 permits a Special Utility District to file a resolution with the Commission requesting that a district be created. The application was completed and SUD conversion was achieved in June of 2010. Accounting principles generally accepted in the United States of America require that the District capitalize the costs associated with these assets and amortize those costs over the life of the asset or loan, and not less than 60 months, respectively, rather than expensing the entire amount in the year acquired. The expense associated with this amortization appears in the basic financial statements as "Amortization."

J. Long-Term Obligations

The District reports long-term debt as liabilities in the statement of net assets. Capitalized leases are deferred and amortized over the life of the lease based on the imputed interest rate and term of the leases.

K. Restricted and Temporarily Restricted Assets

Certain proceeds of bonds and other resources set aside for specific purposes are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Resources that are ultimately converted for general use are considered temporary in nature.

L. Employee Benefits

County Line Special Utility District provides vacation and sick leave for two of the salaried employees. Beginning in fiscal year 2000, employees are allowed to accumulate vacation leave, and it is payable if the employee terminates. Sick leave may also be accumulated; however, it is not payable upon termination. An amount has been accrued for as of December 31, 2011.

M. Revenues and Expenditures

The District recognizes water revenues as they are billed. Water revenues are billed to the customer at the beginning of each month based on water usage. The District has a minimum monthly fee. All other revenues, including late fees, reconnect fees, and inspection fees, are recognized as they are incurred. The District recognizes expenses upon receipt of vendor invoice.

N. Date of Management's Review

Subsequent events were evaluated through February 20, 2013, which is the report date.

O. Functional Allocation of Expenses

Expenses are specifically allocated to the various programs and supporting services whenever practical. When this is impractical, allocations are made on the basis of time and expense reports, space utilization or best estimates of management.

NOTE 3 – CASH, TEMPORARY INVESTMENTS and INVESTMENTS

Cash and temporary investments consist of checking and money market accounts. Investments consist of certificates of deposit with maturities of greater than ninety days and funds invested in Logic Investments. Logic Investments is an investment company for the exclusive use of Government and nonprofit entities.

The District's cash and certificates of deposit are protected to the extent of the depository bank's dollar amount of Federal Deposit Insurance District (FDIC) insurance. All funds invested with Logic Investments are secured as required by Texas law.

The District's cash, temporary investments and investments are as follows:

<u>Institution</u>	<u>Type</u>	<u>Rate</u>	<u>Amounts</u>	<u>Interest Earned</u>
Cash and temporary investments:				
First Lockhart National Bank	Ck	0.10%	\$ 326,721	\$ 183
First Lockhart National Bank	MM	0.08%	145	0
			<u>326,866</u>	<u>183</u>
Investments:				
Ozona	CD	0.95%	101,512	558
Ozona	CD	0.95%	101,373	657
First Lockhart National Bank	CD	0.40%	100,937	654
First Lockhart National Bank (Closed)	CD	1.65%	0	546
Logic Investments		0.21%	1,382,627	2,628
			<u>1,686,449</u>	<u>5,043</u>
			<u>\$ 2,013,314</u>	<u>\$ 5,226</u>

NOTE 4 – RESTRICTED and TEMPORARILY RESTRICTED ASSETS

As of December 31, 2012, the District held no restricted. Temporarily restricted assets in the amount of \$172,297 are designated bond payments. With the conversion to a special utility district, restricted memberships became deposits and are recorded as a liability. The District also had unrestricted assets in the amount of \$4,980,418.

	<u>Balance at 12/31/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2012</u>
Temporarily Restricted:				
Membership	\$ 238,150	\$	238,150	\$ 0
Bonds	172,297			172,297
Total	<u>410,447</u>	<u>0</u>	<u>238,150</u>	<u>172,297</u>
Unrestricted	<u>4,394,563</u>	<u>413,559</u>		<u>4,808,121</u>
Total net assets	<u>\$ 4,805,009</u>	<u>\$ 413,559</u>	<u>\$ 238,150</u>	<u>\$ 4,980,418</u>

NOTE 5 – RECEIVABLES

Accounts receivable from members represents unpaid water usage. At December 31, 2011 the amount was \$147,458.

Summary of Water Receivables and Usage

<u>Balance at 12/31/2011</u>	<u>Water Billing in 2012</u>	<u>Payments received in 2012</u>	<u>Balance at 12/31/2012</u>
\$175,835	\$1,584,322	\$1,594,915	\$165,243
Water pumped		208,482,000	Gallons
Water sold		199,609,700	Gallons
Number of meters at year end		2191	

NOTE 6 –PROPERTY and EQUIPMENT

A summary of changes in capital assets for the year ended December 31, 2012, follows:

	<u>Balance @ 12-31-2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance @ 12-31-2012</u>
Capital assets not being depreciated				
Land and easements	\$ 101,660	\$	\$	\$ 101,660
Water rights	<u>1,874,390</u>	<u> </u>	<u> </u>	<u>1,874,390</u>
Total assets not being depreciated	<u>1,976,050</u>			<u>1,976,050</u>
Capital assets being depreciated/amortized				
Sud conversion & Legal Fees	157,182			157,181
System and equipment	4,609,973	64,992		4,674,965
Water plants	3,528,681			3,528,681
Building and improvements	117,174			117,174
Vehicles	<u>14,694</u>	<u>42,826</u>	<u> </u>	<u>57,520</u>
Total capital assets being depreciated/amortized	<u>8,427,703</u>	<u>107,818</u>	<u> </u>	<u>8,535,521</u>
Less accumulated depreciation/amortization	<u>(2,365,424)</u>	<u>(239,948)</u>	<u> </u>	<u>(2,605,372)</u>
Total assets being depreciated/amortized, net	<u>6,062,279</u>	<u>(132,130)</u>	<u> </u>	<u>5,930,149</u>
Total capital assets	<u>\$ 8,038,330</u>	<u>\$ (132,130)</u>	<u>\$</u>	<u>\$ 7,906,199</u>

Depreciation expense for the year was \$236,290. Of this amount, \$234,290 was allocated to operating expenses and \$1,728 was allocated to administrative expenses. Amortization expense for the year was \$3,930.

NOTE 7 – LONG-TERM DEBT

The District issued long-term debt instruments in order to acquire and/or construct major capital facilities for the water system. During the year ended December 31, 2011, the following changes occurred in long-term liabilities:

USDA Case #50-005-0742235829, loan number 91-01 dated May 30, 2002, original loan \$1,241,000, interest rate 5.0% per year with monthly payments of \$6,044.00, including interest, final payment due March 9, 2041.

	\$ 1,103,794
Less: current principal	<u>(17,765)</u>
Long-term debt	<u><u>\$ 1,086,029</u></u>

Future scheduled maturities of long-term debt are as follows:

	Principal	Interest	Total
Years ending December 31:			
2013	17,765	54,764	72,529
2014	18,673	53,855	72,528
2015	19,629	52,899	72,528
2016	20,633	51,895	72,528
2017	21,689	50,839	72,528
Remainder	<u>1,005,405</u>	<u>145,630</u>	<u>1,151,035</u>
	<u><u>\$ 1,103,794</u></u>	<u><u>\$ 409,882</u></u>	<u><u>\$ 1,513,676</u></u>

Hays Caldwell WTP Series 2003 Bonds, dated May 2003, original loan \$899,600, variable interest rate, final payment due August 1, 2028

	\$ 742,170
Less: current principal	<u>(26,988)</u>
Long-term debt	<u><u>\$ 715,182</u></u>

Future scheduled maturities of long-term debt are as follows:

	Principal	Interest	Total
Years ending December 31:			
2013	29,237	41,570	70,807
2014	29,237	40,180	69,417
2015	31,486	38,676	70,162
2016	33,735	37,088	70,823
2017	35,984	35,349	71,333
Remainder	<u>591,487</u>	<u>229,635</u>	<u>821,122</u>
	<u><u>\$ 751,166</u></u>	<u><u>\$ 422,497</u></u>	<u><u>\$ 1,173,663</u></u>

Hays Caldwell WTP Series 2005 Bonds, dated October 2005, original loan \$2,629,081, 6.44% interest rate, final payment due August 1, 2024

	\$ 2,080,325
Less: current principal	<u>(116,948)</u>
Long-term debt	<u><u>\$ 1,963,377</u></u>

Future scheduled maturities of long-term debt are as follows:

	Principal	Interest	Total
Years ending December 31:			
2013	116,948	130,835	247,783
2014	125,944	123,062	249,006
2015	134,940	114,710	249,650
2016	143,936	105,778	249,714
2017	155,181	96,208	251,389
Remainder	<u>1,403,376</u>	<u>355,631</u>	<u>1,759,007</u>
	<u><u>\$ 2,080,325</u></u>	<u><u>\$ 926,224</u></u>	<u><u>\$ 3,006,549</u></u>

San Marcos RTP Series 2008 Bonds, dated February 2008, original loan \$1,165,440, 5.14045% interest rate, final payment due August 1, 2038

	\$ 1,037,970
Less: current principal	<u>(20,031)</u>
Long-term debt	<u>\$ 1,017,939</u>

Future scheduled maturities of long-term debt are as follows:

	Principal	Interest	Total
Years ending December 31:			
2013	20,031	53,902	73,933
2014	21,852	52,927	74,779
2015	21,852	51,859	73,711
2016	23,673	50,735	74,408
2017	23,673	49,573	
Remainder	<u>926,889</u>	<u>584,174</u>	<u>1,511,063</u>
	<u>\$ 1,037,970</u>	<u>\$ 843,170</u>	<u>\$ 1,881,140</u>

The total amount of interest expense paid and accrued during the year was \$290,452.

NOTE 8 – RISK MANAGEMENT

A. General Liability

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. The District's risk management program encompasses various means of protecting the District against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers and from participation in a risk pool.

The participation of the District in the risk pool is limited to the payment of premiums. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage. The following table shows the District's coverage:

<u>Type of Policy</u>	<u>Coverage Period</u>		<u>Coverage Amount</u>
	<u>Beginning</u>	<u>Ending</u>	
Workers compensation	12-2011	12-2012	STATUTORY
Vehicle	12-2011	12-2012	\$1,000,000
Umbrella	12-2011	12-2012	\$4,300,000
Directors	12-2011	12-2012	\$4,000,000
Employee	12-2011	12-2012	\$100,000
General liability	12-2011	12-2012	\$2,000,000

B. Workers' Compensation

The District purchases workers' compensation insurance annually on the open market. Premiums are based on the estimated District payroll by risk factor and rates. The premiums are adjusted by the

District's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for in the financial statements.

NOTE 9 – OFFICERS, DIRECTORS AND KEY PERSONNEL

<u>Name</u>	<u>Position</u>	<u>Term Expires, May</u>
Board of Directors:		
Curtis Wells	President	2013
John Anderson	V-President	2013
Ollie Maier	Secretary	2015
William Ilse	Director	2014
Jim Roach	Director	2014
John Hopkins	Director	2015
Annie Hatala	Director	2015

Corporate Staff:

Daniel Heideman	Manager
James Woods	Operator
Susan Browning	Office Mgr.



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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

To the Board of Directors
County Line Special Utility District
Uhland, Texas

We have audited the financial statements of the County Line Special Utility District (District) as of and for the year ended December 31, 2012 and have issued our report thereon dated February 20, 2013. 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

Management of GFU is responsible for establishing and maintaining effective 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 opinion 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 deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*. We noted no matters that needed to be reported to management.

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

Stephen W Cook, CPA

Stephen W. Cook, CPA
February 20, 2013



Serving the San Antonio + Austin Corridor

MANAGEMENT LETTER

To the Board of Directors
County Line Special Utility District
Uhland, Texas

In planning and performing our audit of the financial statements of the County Line Special Utility District for the year ended December 31, 2012, we considered the District's internal control over financial reporting as a basis for designing auditing 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.

During our audit, we did not become aware of any opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated February 20, 2013, on the financial statements of County Line Special Utility District.

This report is intended solely for the information and use of management, the finance committee, 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.

Stephen W Cook, CPA

Stephen W Cook, CPA
San Antonio, Texas
February 20, 2013