**COUNTY LINE SPECIAL UTILITY DISTRICT**

FINANCIAL STATEMENTS AND AUDITOR’S REPORT

# December 31, 2015

*WITH SUPPLEMENTARY INFORMATION*



***Corresponding and Billing:***

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**ANNUAL FILING AFFIDAVIT**

STATE OF TEXAS }

COUNTY OF HAYS }

I, Christopher Betz, of the County Line Special Utility District hereby swear, or affirm, that the District above has reviewed and approved at the meeting of the District’s Board of Directors on the \_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_\_\_ , 2016 its annual audit report for the fiscal period ended December 31, 2015 and the copies of the annual audit report have been filed in the District’s office, located at 131 South Camino Real, Uhland, Texas 78640.

This affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of the Texas Water Code Section 49.194.

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, 2016 By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Sworn to and subscribed to before me this \_\_\_\_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

My commission expires on: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Notary Public in the State of Texas

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**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, 2015 . 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.

**OVERVIEW OF THE DISTRICT**

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.

In order to provide the system’s customers with a recognized political subdivision that would have the power needed to obtain alternative and more favorable method of financing for future improvements, County Line Water Supply Company became a Special Utility District. County Line Special Utility District was created on June 1, 2010, for financial reporting purposes.

**Financial Highlights**

* Total assets increased $839,615 to $12,222,270.
* Total liabilities decreased $227,674 to $5,422,865.
* Total net assets increased $1,067,289 to $6,799,405.
* Total operating revenues increased $392,265.
* Total operating expenses increased $231,519.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components: (1) The Statement of Net Assets which include all of the District’s assets and liabilities, and provides information about the nature and amounts of investment in resources and obligations to creditors; (2) The Statement of Revenues, Expenditures and Changes in Net Assets show the business-type activities of the district and provides information regarding income and expense ( both operating and non-operating) that affect the net assets; and (3) The Statement of Cash Flows. The primary purpose of this statement is to provide information about the District’s cash receipts and cash payments during the period using the direct method of reporting cash flows from operating, investing, and capital financing activities.

**Enterprise Funds**

Enterprise funds (Proprietary fund) are used to report the same functions present as business-type activities. County Line SUD operates as an enterprise fund.

**Notes to the Financial Statements**

Integral to the financial statements are the Notes to the Financial Statements. These notes provide additional information that is essential to a full understanding of the financial data provided in the basic

statements.

The District has prepared notes sufficient to provide the readers of these financial statements a clearer

picture of the District’s financial position and insight into the results of its operations. These notes comply with the standardized reporting requirements for districts by TCEQ and are in conformity with GAAP.

**Statement of Net Assets**

The statement of net assets for a district is similar to the balance sheet presented as a basic financial statement for private-sector companies. The statements of net assets include all of the district’s assets and liabilities. A major function of the statement of net assets is to measure the ability of a District to meet its current and long-term obligations. The biggest difference between the statement of net assets and the private-sector balance sheet is in the reporting of the difference between total assets and total liabilities. In the balance sheet of a private-sector business, the difference between the total assets and total liabilities is a measure of the value of the business that the owners would realize if they sell their share of the business.

Instead of measuring the “owners’ equity,” state and local governments report the net value of “net assets” in these major categories:

* Restricted
* Temporarily Restricted
* Unrestricted
* Invested in Capital Assets, Net of Related Debt

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this section also presents certain required supplemental information by TCEQ in the Texas Supplemental Schedule section which may be beneficial to the reader.

**FINANCIAL ANALYSIS**

The following condensed Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets show a two year operating comparison of the District.



Changes in the District’s net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Net Assets for the two years ended December 31, 2014 and 2013.



Revenues by source in fiscal year 2014 consisted of 64% of water revenues, 30% of new account fees.

**Capital Assets and Debt**

At December 31, 2015, the District had $7,637,782 in total capital assets. Additional information on the District’s capital assets can be found in Note 5. At the same time the District had outstanding debt of $4,265,319. Of this amount, $213,351 is considered to be current. Additional information on the District’s outstanding debt may be found in Note 6.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

There are currently no known or anticipated economic factors affecting next year’s budget. No significant changes to the District’s budget for 2016 are anticipated.

**CONTACTING THE DISCTRICT’S MANAGEMENT**

This report is designed to provide our customers and creditors with a general overview of the district’s finances and to show the district’s accountability for the funds it receives. Questions and requests may be made by contacting the District’s office at 131 So. Camino Real, Uhland, Texas, 78640. (512-398-4748)



***Serving the San Antonio + Austin Corridor***

Independent Auditor’s Report

Board of Directors

County Line Special Utility District

Uhland, Texas

I have audited the accompanying financial statements of the governmental activities and the business-type activities of the County Line Special Utility District (District) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

**Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

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

**Opinions**

In my 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, 2015 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**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 4 through 7 and on pages 28 through 48 be presented to supplement the basic financial statements. 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

**Stephen W Cook, CPA**

Stephen W. Cook, CPA

March 4, 2016

**BASIC FINANCIAL STATEMENTS**







#### NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 –REPORTING ENTITY

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.

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.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District’s basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units in conjunction with the “Water District’s Financial Management Guide” published by the Texas Commission on Environmental Quality (TCEQ). The accounting and reporting policies conform to those principles prescribed by the Governmental Accounting Standards Board (GASB) and those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled *Audits of State and* *Local Governmental Units.*

**A. Proprietary Funds**

Proprietary funds are those funds used to account for the District’s ongoing organization and activities which are similar to those found in the business sector and are referred to as business type activities. The measurement focus is upon capital maintenance and upon determination of net position and changes in net position.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with the proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise fund include costs of sales, administrative expenses, and depreciation of capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed. Additionally, the District would first use restricted, then committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

**B. Budgetary Information**

The District follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

* Prior to the beginning of the fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
* Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the District.

**C. Operating and Non-operating Revenue and Expense Policy**

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District’s principal ongoing operating activities. As business-type activities, the District’s operating revenues are defined as the result of exchange transactions with those who purchase, use or directly benefit from the services provided by the District. Non-operating items include activities that have the characteristic on non-exchange transactions such as grants and contributions and other items that are defined as non-operating by GASB No. 9*, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds Governmental Entities that Use Proprietary Fund Accounting*, and GASB 34, *Basic Financial Statements and* *Management Discussion and Analysis for State and Local Governments.* Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as non-operating revenues or non-operating expense utilizing the direct method.

##### D. 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.

**E. 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.

**F. Receivables and Payables**

All receivables and payables are reported at their gross value. The District uses the direct write-off method to account for bad debt associated with receivables. Payables are reported in the period the liability is incurred. The District believes that sufficient detail of receivable and payable balances are provided and therefore, provides no additional disclosure.

**G. Inventory and Prepaid Items**

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items.

**H. 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”.

**I. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets’ lives are not capitalized. A capitalization threshold of $5,000 is used.

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 (Yrs.)** |
| Distribution System | 40-50 |
| Van Trailer and Improvements | 10-50 |
| Machinery and Equipment | 5-30 |
| Fencing | 20 |
| Building | 20 |
| Furniture and Fixtures | 3-10 |
| Communication Equipment | 10 |
| Other depreciable assets | 5-8 |

**J. Amortization of SUD Conversion**

The District’s membership voted in 2010 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.”

**K**. **Employee Benefits**

County Line Special Utility District provides vacation and sick leave for all qualifying employees. 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. The Vacation and sick accrual schedules are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Year of Service** | **Annual Accrual** | **Carry Over Amount** |
| **Vacation** | 1-3 Years | 40 Hours | None |
|  | 4-10 Years | 80 Hours | None |
|  | Over 10 Years | 120 Hours | None |
|  |  |  |  |
| **Sick** | All | 48 Hours | 160 Hours |

**L. 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.

**M. 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.

**N. Date of Management’s Review**

Subsequent events were evaluated through March 4, 2016 which is the revised report date. There were no significant subsequent events.

**O. Related Party Transactions**

The District policy regarding related party transactions requires all activities between the District and either Board members, staff or relatives to be disclosed and approved by the Board.

**NOTE 3 – CASH, TEMPORARY INVESTMENTS and INVESTMENTS**

Cash Deposits

The District’s cash deposits at December 31, 2015 were entirely covered by the FDIC insurance or by pledged collateral held by the District’s agent bank.

Investments

The District is required by Government Code Chapter 2256, *The Public Funds Investment Act* (the “Act”) to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) bid solicitation preferences for certificates of deposit and, (9) stated compliance with this Investment Policy.

This Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the district were in accordance with local policies.

The Act determines which investments are acceptable for the District. These may include, with certain restrictions; (1) obligations of the U.S. Treasury, certain U.S. agencies, the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) fully collateralized repurchase agreements with certain criteria, (6) bankers acceptances, (7) mutual funds, (8) investment pools, and (9) guaranteed investment contracts. The District policy authorizes all the State allowable investments. If additional types of securities are approved for investment by public funds by state statute, the District will have to amend its policy before the new investment types can be considered for investment by the District.

The District’s board believes that the District has complied in all material respects with the requirements of the Act and the District’s investment policies.

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



Analysis of Specific Deposit and Investment Risks

GASB Statement 40 requires a determination as to whether the district was exposed to the following specific investment risks at year end and, if so, the reporting of certain related disclosures.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end the District did not have any significant credit risk

*Custodial Credit Risk*

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralize with securities held by the pledging financial institution’s trust department or agent. At year-end the District had no exposure to custodial credit risk.

*Concentration of Credit Risk*

This is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. At year end, the District’s exposure to concentration of credit risk is shown in the table below as a percentage of each investment type. The District adopted Investment Policy establishes diversification as a major objective of the investment program and sets diversification limits for all authorized investment types which are monitored on at least a monthly basis. The diversification of the portfolio at year end is shown in the table above.

*Interest Rate Risk*

This is the risk that changes in interest rates will adversely affect the fair value of an investment. In order to limit interest and market rate risk from changes in interest rates, the District’s adopted Investment Policy sets a maximum stated maturity limit of two years

*Foreign Currency Risk*

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the District had no exposure to foreign currency risks.

*Investment Accounting Policy*

The District’s general policy is to report money market investments and short-term participating interest earning investment using at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments which have a remaining term of one year or less at time of purchase. The term “non-participating” means that the investment’s value does not vary with market interest rate changes. Non-negotiable certificates of deposits are examples of non-participating interest-earning investment contracts.

*Public Funds Investment Pools*

Public funds investment pools in Texas (Pools) are established under the authority of the Inter-local Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds investment Act (Act), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower the AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) ,maintain the fair value of its underlying investment portfolio within one half of one percent of the value of its share.

The district’s investment in Pools are reported at an amount determined by the fair value per share of the Pool’s underlying portfolio, unless the Pool is 2a7-like Pool, in which case they are reported at share value. A 2a7-like Pool is one which is not registered with Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

**NOTE 4 – CAPITAL, RESTRICTED and TEMPORARILY RESTRICTED ASSETS**

As of December 31, 2014, the District held no restricted assets. 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 $3,426,942.

**NOTE 5 – RECEIVABLES**

Accounts receivable from members represent unpaid water usage. At December 31, 2015 the amount was $189,607.



**NOTE 6 –CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2015, follows:



Depreciation and amortization expense for the year was $260,665. Of this amount, $254,875 was allocated to operating expenses and $1,861 was allocated to administrative expenses. Amortization expense for the year was $3,929.

**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, 2015, the following changes occurred in long-term liabilities:









The total amount of interest expense paid and accrued during the year was $232,507.

**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 risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage. District management is not aware of any pending or alleged claims for which expected liability would exceed the policy limits of present insurance coverage. The following table shows the District’s coverage:



**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 – HCPUA CONTRACT**

In 2008, the Canyon Regional Water Authority (CRWA) purchased a 30.89% interest in a contract with the Hays Caldwell Public Utility Agency (HCPUA) for future water.

The future water comes from leases obtained by HCPUA for the Carrizo-Wilcox groundwater on a long-term basis. The cost of the project included the acquisition of raw water, purification of that water, and transportation of the water to the designated owners. The cost of the project as of January, 2014, was $3,056,000 for the water acquisition. Both the CRWA and the District agreed that the value of these prior services was $375,000. The District agreed to repay this amount over twenty years in equal annual installments of $18,750.

**NOTE 10 – OFFICERS, DIRECTORS AND KEY PERSONNEL**



**SUPPLEMENTARY INFORMATION**

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**TEXAS SUPPLEMENTARY INFORMATION**



















**COMPLIANCE SECTION**

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***Serving the San Antonio + Austin Corridor***

**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

I have audited, in accordance with the 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, the financial statements of County Line Special Utility District (District) which comprise the balance sheet as of December 31, 2015, fund balance, and cash flows for the year then ended and the related notes to the financial statements, and have issued my report thereon dated March 4, 2016

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, I considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, I do not express an opinion on the effectiveness of County Line Special Utility 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 *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. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of the Report**

The purpose of this report is solely to describe the scope of my testing on internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Stephen W Cook, CPA**

Stephen W. Cook, CPA

March 4, 2016



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**(Unqualified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control over Compliance Identified)**

To the Board of Directors

County Line Special Utility District

Uhland, Texas

**Report on Compliance for each Major Federal Program**

I have audited County Line Special Utility District (District) compliance requirement described in the U.S. Office of Management and Budget (OMB), Circular A-133, *Compliance Supplement* that could directly and materially affect the District’s major federal program for the year ended December 31, 2015 The District’s major federal programs are identified in the summary of the auditor’s results section of the accompanying schedule of findings and question costs.

**Management’s Responsibility**

The District’s management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

**Auditor’s Responsibility**

My responsibility is to express an opinion on compliance for each of the District’s major federal programs based on my audit of the applicable compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of State, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require me to plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe my audit provides a reasonable basis for my compliance opinion on the District’s major programs. However, my audit does not provide a legal determination of the District’s compliance.

**Opinion on the Major Federal Program**

In my opinion, the District complied, in all material respects, with the compliance requirements referred to above that could directly and materially affect its major federal programs for the year ended December 31, 2014.

**Report in Internal control Over Compliance**

The District’s management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing my compliance audit, I considered the District’s internal control over compliance with the types requirements that could directly and materially effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB-Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District’s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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Stephen W Cook, CPA

Stephen W Cook, CPA, PLLC

March 4, 2016









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**MANAGEMENT LETTER**

To the Board of Directors

County Line Special Utility District

Uhland, Texas

In planning and performing my audit of the financial statements of the County Line Special Utility District for the year ended December 31, 2014, I 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, I do not express an opinion on the effectiveness of the District’s internal control.

During my audit, I did not become aware of any opportunities for strengthening internal controls and operating efficiency. This letter does not affect my report dated February 23, 2015, 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, PLLC

February 23, 2015