

**COUNTY LINE SPECIAL
UTILITY DISTRICT**

Annual Financial Report

**For the Year Ended
December 31, 2011**

Cook, Gola, and Company, PLLC

Certified Public Accountants

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Certified Public Accountants
45 NE Loop 410, Suite 210
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Independent Auditors' Report

Board of Directors
County Line Special Utility District
Uhland, Texas

We have audited the accompanying statement of financial position of County Line Special Utility District (a nonprofit organization) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of County Line Special Utility District as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 13 - 15 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

San Antonio, Texas
February 20, 2012

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, 2011. 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 2011 showed total net assets of \$4.81 million compared to \$4.89 million at fiscal year end 2010. Of these amounts, assets that were unrestricted for meeting the District's ongoing obligations were \$4.39 million and \$4.09 million at the fiscal years ended 2011 and 2010, respectively.

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

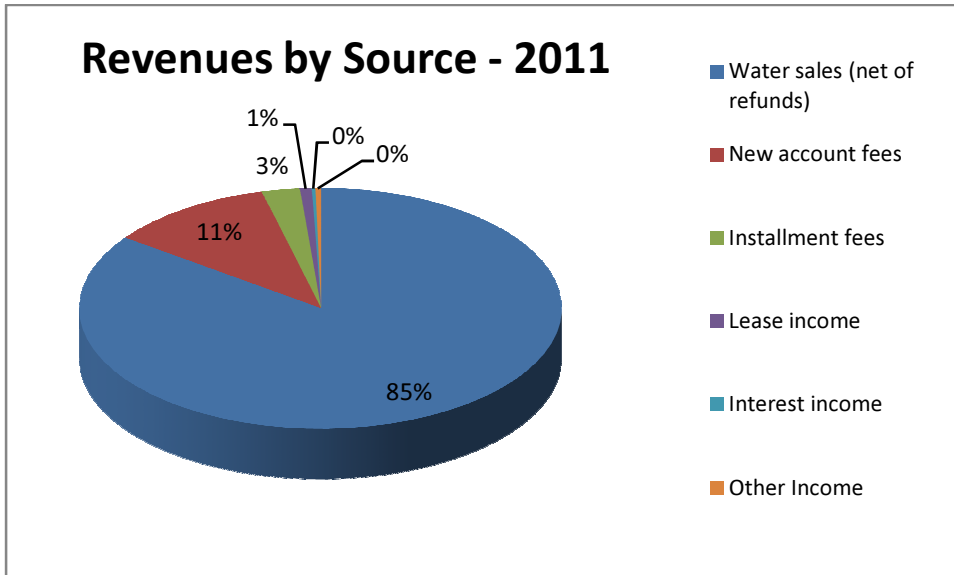
| Total Net Assets | 2011 | 2010 |
|-------------------------------------|---------------------|---------------------|
| Current and other assets | \$ 2,369,334 | \$ 2,059,500 |
| Capital assets | 8,038,330 | 8,168,795 |
| Total assets | 10,407,664 | 10,228,295 |
| Current liabilities | 665,834 | 630,010 |
| Non-current liabilities outstanding | 4,936,812 | 5,109,114 |
| Total liabilities | 5,602,646 | 5,739,124 |
| Net Assets | \$ 4,805,018 | \$ 4,489,171 |
| | | |
| Temporarily Restricted | \$ 410,447 | \$ 397,411 |
| Unrestricted | 4,394,571 | 4,091,760 |
| Total Net Assets | \$ 4,805,018 | \$ 4,489,171 |

Total revenues for fiscal year 2011 were \$1.91 million, an increase of \$176 thousand. Increased accounts and meters were the primary sources of this increase. Operations expense for 2011 was \$1.47 million, a decrease of \$113 thousand. Administrations expense was \$129 thousand, an increase of \$4 thousand.

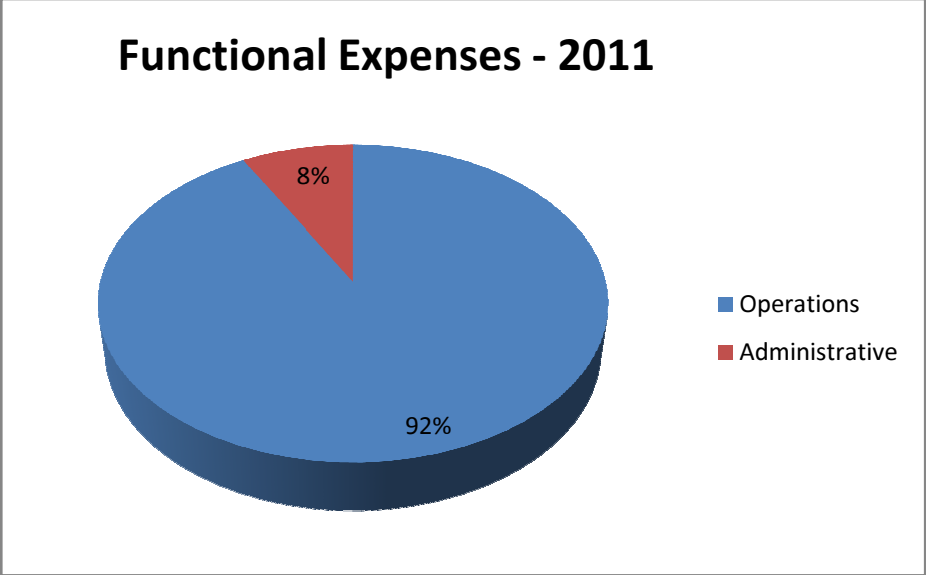
Changes in Net Assets

| | <u>2011</u> | <u>2010</u> |
|---------------------------------------|---------------------|---------------------|
| Revenues: | | |
| Water revenues | \$ 1,623,910 | \$ 1,488,671 |
| Other revenues | 282,237 | 241,165 |
| Interest earned | 4,601 | 4,537 |
| Total revenues | <u>1,910,748</u> | <u>1,734,373</u> |
| Expenses: | | |
| Operations | 1,468,858 | 1,581,460 |
| Administrative | 129,262 | 125,330 |
| Total expenses | <u>1,598,120</u> | <u>1,706,790</u> |
| Net Income before Changes to Capital | 312,628 | 27,583 |
| Prior Period Adjustments | 0 | (167,840) |
| Changes to Capital | 3,219 | 37,595 |
| Change in Net Assets | 315,847 | (102,662) |
| Total Net Assets - Beginning of Year | 4,489,171 | 4,591,833 |
| Total Net Assets - End of Year | <u>\$ 4,805,018</u> | <u>\$ 4,489,171</u> |

Revenues by source in fiscal year 2011 consisted of 85% of water revenues, 11% of new account fees, and 3% of installment fees.



Total expense for fiscal year 2011 was \$1.6 million. Of this amount, \$1.47 million, or 92% was operations expense. \$129 thousand, or 8% was administrations expense.



Notes to the Basic Financial Statements

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

FINANCIAL STATEMENTS

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF FINANCIAL POSITION
December 31, 2011

| | <u>2011</u> |
|---|----------------------|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | \$ 276,779 |
| Investments | 1,364,887 |
| Water fees receivable (net) | 147,458 |
| Due from developers | 549,850 |
| Inventory | 21,325 |
| Prepaid assets | <u>9,035</u> |
| Total Current Assets | 2,369,334 |
| Capital Assets | |
| Land and easements | 101,660 |
| Water rights | 1,874,390 |
| SUD Conversion & legal fees (net of amortization) | 144,249 |
| Building, Plant and Equipment (net of depreciation) | <u>5,918,031</u> |
| Total Capital Assets | 8,038,330 |
| Total Assets | <u>\$ 10,407,664</u> |
| Liabilities and Net Assets | |
| Current Liabilities | |
| Accrued benefits | \$ 8,378 |
| Accounts payable | 8,133 |
| Deferred revenues | 477,026 |
| Current portion of long-term debt | <u>172,297</u> |
| Total Current Liabilities | 665,834 |
| Notes payable, net of current portion | <u>4,936,812</u> |
| Total Liabilities | 5,602,646 |
| Net Assets | |
| Unrestricted | 4,394,571 |
| Temporarily restricted | <u>410,447</u> |
| Total Net Assets | <u>4,805,018</u> |
| Total Liabilities and Net Assets | <u>\$ 10,407,664</u> |

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

COUNTY LINE SPECIAL UTILITY DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

| | <u>2011</u> |
|---|---------------------|
| Revenue | |
| Water revenues | \$ 1,623,910 |
| Other revenues | 282,237 |
| Interest earned | <u>4,601</u> |
| Total Revenue | 1,910,748 |
| Expenses | |
| Operations | 1,468,858 |
| Administrative | <u>129,262</u> |
| Total Expenses | 1,598,120 |
| Increase in Unrestricted Net Assets | <u>312,628</u> |
| Temporarily Restricted Net Assets | |
| Net Assets, beginning of year | 397,411 |
| Contributions for bond payments | 9,817 |
| New members | <u>3,219</u> |
| Increase in Temporarily Restricted Net Assets | 410,447 |
| Net Assets, beginning of year | 4,091,760 |
| Reclassification of bond payments | <u>(9,817)</u> |
| Net Assets, end of year | <u>\$ 4,805,018</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, 2011

Operating Activities

| | |
|---|----------------|
| Change in Net Assets | \$ 315,848 |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and Amortization | 234,169 |
| Accounts Receivable | 17,229 |
| Inventory | (6,550) |
| Other Current Assets | (124) |
| Accounts Payable and Accrued Liabilities | 26,006 |
| | <u>270,730</u> |
| Net cash provided by operating activities | 586,578 |

Investing Activities

| | |
|---|------------------|
| Increase in Assets Recorded | <u>(103,703)</u> |
| Net cash (used) by investing activities | <u>(103,703)</u> |

Financing Activities

| | |
|---|------------------|
| Payments on Long-Term Debt | <u>(162,486)</u> |
| Net cash (used) in financing activities | <u>(162,486)</u> |

Net Increase (Decrease) in Cash and Investments 320,389

| | |
|--|---------------------|
| Cash and Investments - beginning of the year | <u>1,321,277</u> |
| Cash and Investments - end of the year | <u>\$ 1,641,666</u> |

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, 2011

| | <u>2011</u> |
|------------------------------|---------------------|
| Water sales (net of refunds) | \$ 1,623,910 |
| New account fees | 211,705 |
| Installment fees | 48,514 |
| Lease income | 14,870 |
| Interest income | 4,601 |
| Other Income | 7,148 |
| | <u>\$ 1,910,748</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, 2011

| | <u>Operations</u> | <u>Administrative</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------|---------------------|
| Salaries | \$ 107,078 | \$ 62,887 | \$ 169,965 |
| Payroll taxes | 8,592 | 5,046 | 13,638 |
| Benefits | 1,535 | 901 | 2,436 |
| CRWA expenses | 591,327 | 0 | 591,327 |
| Dues and fees | 3,627 | 0 | 3,627 |
| EAA water rights | 11,365 | 0 | 11,365 |
| Engineering expenses | 16,999 | 0 | 16,999 |
| Insurance | 23,858 | 14,012 | 37,870 |
| Interest expense | 302,715 | 0 | 302,715 |
| Legal and accounting | 0 | 15,821 | 15,821 |
| Meeting expenses | 0 | 1,220 | 1,220 |
| Office supplies | 0 | 11,920 | 11,920 |
| Postage and freight | 0 | 6,023 | 6,023 |
| RM-distribution system-materials | 58,774 | 0 | 58,774 |
| RM-distribution system-labor | 11,039 | 0 | 11,039 |
| RM-plant-materials | 1,886 | 0 | 1,886 |
| RM-plant-labor | 5,702 | 0 | 5,702 |
| RM-plant-other | 8,999 | 0 | 8,999 |
| Stipend | 9,075 | 0 | 9,075 |
| Taxes | 0 | 0 | 0 |
| Training and development | 2,240 | 0 | 2,240 |
| Telephone and communication | 0 | 6,980 | 6,980 |
| Utilities | 39,379 | 0 | 39,379 |
| Vehicle | 12,853 | 0 | 12,853 |
| Uniforms | 3,167 | 0 | 3,167 |
| Other expenses | 18,934 | 0 | 18,934 |
| Amortization | 3,930 | 0 | 3,930 |
| Depreciation | 225,786 | 4,453 | 230,239 |
| | <u>\$ 1,468,858</u> | <u>\$ 129,262</u> | <u>\$ 1,598,120</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, 2011

| | Operating | | Administrative | | Totals | |
|-------------------------------|---------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| | Actual | Budget | Actual | Budget | Actual | Budget |
| Salaries | \$ 107,078 | \$ 105,000 | \$ 62,887 | \$ 63,360 | \$ 169,965 | \$ 168,360 |
| Payroll taxes | 8,592 | 30,994 | 5,046 | 15,000 | 13,638 | 45,994 |
| Benefits | 1,535 | 0 | 901 | 0 | 2,436 | 0 |
| CRWA expenses | 591,327 | 580,476 | 0 | 0 | 591,327 | 580,476 |
| Dues and fees | 11,365 | 2,000 | 0 | 0 | 11,365 | 2,000 |
| EAA water rights | 3,627 | 3,000 | 0 | 0 | 3,627 | 3,000 |
| Engineering expenses | 16,999 | 40,000 | 0 | 0 | 16,999 | 40,000 |
| Insurance | 23,858 | 25,578 | 14,012 | 15,022 | 37,870 | 40,600 |
| Interest expense | 302,715 | 392,670 | 0 | 0 | 302,715 | 392,670 |
| Legal and accounting | 0 | 0 | 15,821 | 6,700 | 15,821 | 6,700 |
| Meeting expenses | 0 | 0 | 1,220 | 1,800 | 1,220 | 1,800 |
| Office supplies | 0 | 0 | 11,920 | 18,000 | 11,920 | 18,000 |
| Postage and freight | 0 | 0 | 6,023 | 8,000 | 6,023 | 8,000 |
| RM-distribution system-materi | 58,774 | 90,000 | 0 | 0 | 58,774 | 90,000 |
| RM-distribution system-labor | 11,039 | 160,000 | 0 | 0 | 11,039 | 160,000 |
| RM-plant-materials | 1,886 | 3,600 | 0 | 0 | 1,886 | 3,600 |
| RM-plant-labor | 5,702 | 6,000 | 0 | 0 | 5,702 | 6,000 |
| RM-plant-other | 8,999 | 12,500 | 0 | 0 | 8,999 | 12,500 |
| Stipend | 9,075 | 12,500 | 0 | 0 | 9,075 | 12,500 |
| Taxes | 0 | 0 | 0 | 0 | 0 | 0 |
| Training and development | 2,240 | 3,000 | 0 | 0 | 2,240 | 3,000 |
| Telephone and communication | 0 | 0 | 6,980 | 6,900 | 6,980 | 6,900 |
| Utilities | 39,379 | 41,400 | 0 | 0 | 39,379 | 41,400 |
| Vehicle | 12,853 | 16,400 | 0 | 0 | 12,853 | 16,400 |
| Uniforms | 3,167 | 3,600 | 0 | 0 | 3,167 | 3,600 |
| Other expenses | 18,934 | 16,300 | 0 | 0 | 18,934 | 16,300 |
| Amortization | 3,930 | 0 | 0 | 0 | 3,930 | 0 |
| Depreciation | 225,786 | 0 | 4,453 | 0 | 230,239 | 0 |
| | <u>\$ 1,468,858</u> | <u>\$ 1,545,018</u> | <u>\$ 129,262</u> | <u>\$ 134,782</u> | <u>\$ 1,598,120</u> | <u>\$ 1,679,800</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.

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% | \$ 276,635 | \$ 183 |
| First Lockhart National Bank | MM | 0.08% | 144 | 0 |
| | | | <u>276,779</u> | <u>183</u> |
| Investments: | | | | |
| Ozona | CD | 0.95% | 100,715 | 715 |
| Ozona | CD | 0.95% | 100,954 | 954 |
| First Lockhart National Bank | CD | 0.40% | 83,219 | 442 |
| First Lockhart National Bank (Closed) | CD | 1.65% | 0 | 546 |
| Logic Investments | | 0.21% | 1,079,999 | 1,761 |
| | | | <u>1,364,887</u> | <u>4,418</u> |
| | | | <u>\$ 1,641,666</u> | <u>\$ 4,601</u> |

NOTE 4 – RESTRICTED and TEMPORARILY RESTRICTED ASSETS

As of December 31, 2011, the District held no restricted. Temporarily restricted assets in the amount of \$410,447 are designated for membership and bond payments. The District also had unrestricted assets in the amount of \$4,805,018.

| | <u>Balance at 12/31/2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>Reclass</u> | <u>Balance at 12/31/2011</u> |
|-------------------------|----------------------------------|-------------------|------------------|----------------|----------------------------------|
| Temporarily Restricted: | | | | | |
| Membership | \$ 234,931 | \$ 3,219 | | \$ | \$ 238,150 |
| Bonds | 162,480 | 0 | | 9,817 | 172,297 |
| Total | <u>397,411</u> | <u>3,219</u> | <u>0</u> | <u>9,817</u> | <u>410,447</u> |
| Unrestricted | 4,091,760 | 312,628 | | -9,817 | 4,394,571 |
| Prior Period Adjustment | 0 | 0 | | | 0 |
| Total net assets | <u>\$ 4,489,171</u> | <u>\$ 315,847</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 4,805,018</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 12/31/2010</u> | <u>Water Billing in 2011</u> | <u>Payments received in 2011</u> | <u>Balance at 12/31/2011</u> |
|----------------------------------|----------------------------------|--|----------------------------------|
| \$175,835 | \$1,626,854 | \$1,655,231 | \$147,458 |
| Water pumped | | 238,415,000 | Gallons |
| Water sold | | 210,051,600 | Gallons |
| Number of meters at year end | | 2065 | |

NOTE 6 –PROPERTY and EQUIPMENT

A summary of changes in capital assets for the year ended December 31, 2011, follows:

| | <u>Balance @ 12-31-2010</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance @ 12-31-2011</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 | 1,976,050 | | | 1,976,050 |
| Capital assets being depreciated/amortized | | | | |
| Sud conversion & Legal Fees | 157,182 | | | 157,182 |
| System and equipment | 4,507,123 | 102,851 | | 4,609,974 |
| Water plants | 3,528,681 | | | 3,528,681 |
| Building and improvements | 116,322 | 852 | | 117,174 |
| Vehicles | <u>14,694</u> | <u> </u> | <u> </u> | <u>14,694</u> |
| Total capital assets being depreciated/amortized | <u>8,324,002</u> | <u>103,703</u> | <u> </u> | <u>8,427,705</u> |
| | 0 | | | 0 |
| Less accumulated depreciation/amortization | <u>(2,131,256)</u> | <u>(234,169)</u> | <u> </u> | <u>(2,365,425)</u> |
| Total assets being depreciated/amortized, net | <u>6,192,746</u> | <u>(130,466)</u> | <u> </u> | <u>6,062,280</u> |
| | 0 | | | 0 |
| Total capital assets | <u>\$ 8,168,796</u> | <u>\$ (130,466)</u> | <u>\$</u> | <u>\$ 8,038,330</u> |

Depreciation expense for the year was \$230,239. Of this amount, \$225,786 was allocated to operating expenses and \$4,453 was allocated to administrative expenses. Amortization expense for the year was \$3,930.

The following schedule presents the District's assets and accumulated depreciation and amortization in detail:

| | 2011 |
|----------------------------------|---------------------|
| Land and easements | \$ 101,660 |
| Water rights | 1,874,390 |
| Distribution system | 4,604,334 |
| Water treatment plants | 3,528,681 |
| Building | 106,135 |
| Improvements | 11,039 |
| SUD conversion & Legal fees | 157,182 |
| Equipment - vehicles | 14,694 |
| Equipment-field | 5,640 |
| | <u>10,403,755</u> |
| Less: accumulated deprec./amort. | <u>(2,365,425)</u> |
| | <u>\$ 8,038,330</u> |

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.

| | |
|-------------------------|---------------------|
| | \$ 1,120,236 |
| Less: current principal | <u>(16,900)</u> |
| Long-term debt | <u>\$ 1,103,336</u> |

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

| | Principal | Interest | Total |
|---------------------------|---------------------|---------------------|---------------------|
| Years ending December 31: | | | |
| 2012 | 16,900 | 55,628 | 72,528 |
| 2013 | 17,764 | 54,764 | 72,528 |
| 2014 | 18,673 | 53,855 | 72,528 |
| 2015 | 19,629 | 52,899 | 72,528 |
| 2016 | 20,633 | 51,895 | 72,528 |
| Remainder | <u>1,026,637</u> | <u>761,331</u> | <u>1,787,968</u> |
| | <u>\$ 1,120,236</u> | <u>\$ 1,030,372</u> | <u>\$ 2,150,608</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: | | | |
| 2012 | 26,988 | 42,120 | 69,108 |
| 2013 | 29,237 | 40,800 | 70,037 |
| 2014 | 29,237 | 39,313 | 68,550 |
| 2015 | 31,486 | 37,786 | 69,272 |
| 2016 | 33,735 | 36,111 | 69,846 |
| Remainder | <u>591,487</u> | <u>246,154</u> | <u>837,641</u> |
| | <u><u>\$ 742,170</u></u> | <u><u>\$ 442,284</u></u> | <u><u>\$ 1,184,454</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

| | |
|-------------------------|----------------------------|
| | \$ 2,190,526 |
| Less: current principal | <u>(110,201)</u> |
| Long-term debt | <u><u>\$ 2,080,325</u></u> |

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

| | Principal | Interest | Total |
|---------------------------|----------------------------|----------------------------|----------------------------|
| Years ending December 31: | | | |
| 2012 | 110,201 | 141,070 | 251,271 |
| 2013 | 116,948 | 133,973 | 250,921 |
| 2014 | 125,944 | 126,441 | 252,385 |
| 2015 | 134,940 | 118,331 | 253,271 |
| 2016 | 143,936 | 109,641 | 253,577 |
| Remainder | <u>1,558,557</u> | <u>476,872</u> | <u>2,035,429</u> |
| | <u><u>\$ 2,190,526</u></u> | <u><u>\$ 1,106,327</u></u> | <u><u>\$ 3,296,853</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

| | |
|-------------------------|----------------------------|
| | \$ 1,056,180 |
| Less: current principal | <u>(18,210)</u> |
| Long-term debt | <u><u>\$ 1,037,970</u></u> |

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

| Years ending December 31: | Principal | Interest | Total |
|---------------------------|----------------------------|--------------------------|----------------------------|
| 2012 | 18,210 | 54,293 | 72,503 |
| 2013 | 20,031 | 53,356 | 73,387 |
| 2014 | 21,852 | 52,327 | 74,179 |
| 2015 | 21,852 | 51,204 | 73,056 |
| 2016 | 23,673 | 50,080 | 73,753 |
| Remainder | <u>950,562</u> | <u>658,436</u> | <u>1,608,998</u> |
| | <u><u>\$ 1,056,180</u></u> | <u><u>\$ 919,695</u></u> | <u><u>\$ 1,975,875</u></u> |

The total amount of interest expensed and paid during the year was \$302,715.

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 | 12-2010 | 12-2011 | STATUTORY |
| Vehicle | 12-2010 | 12-2011 | \$1,000,000 |
| Umbrella | 12-2010 | 12-2011 | \$4,300,000 |
| Directors | 12-2010 | 12-2011 | \$4,000,000 |
| Employee | 12-2010 | 12-2011 | \$100,000 |
| General liability | 12-2010 | 12-2011 | \$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 |
| Randy Robertson | V-President | 2012 |
| John Anderson | Secretary | 2013 |
| William Ilse | Director | 2014 |
| Ollie Maier | Director | 2012 |
| Jim Roach | Director | 2014 |
| Perry Towles | Director | 2013 |
| Corporate Staff: | | |
| Daniel Heideman | Manager | |
| Susan Whisenant | Office Mgr. | |



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MANAGEMENT LETTER

To the Board of Directors
The 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, 2011, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of an opportunity for strengthening internal controls and operating efficiency, as discussed below in Organizational Structure. This letter does not affect our report dated February 20, 2012, on the financial statements of the County Line Special Utility District.

We will review the status of this comment during our next audit engagement. We have already discussed this comment with the District's executive staff, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendations. Our comment is summarized as follows:

Organizational Structure

The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remains involved in the financial affairs of the District to provide oversight and independent review functions.

Cash and Investments

Current FDIC regulations state that from December 31, 2010 through December 31, 2012, deposits held at FDIC-insured institution in noninterest-bearing transactions accounts will be fully insured regardless of the amount in the account. We recommend that the Board review current account balances and revise their bank balances accordingly.

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.

Cook, Gola, and Company, PLLC
San Antonio, Texas
February 20, 2012