

**COUNTY LINE
SPECIAL UTILITY DISTRICT**

ANNUAL FINANCIAL REPORT

**YEAR ENDED
DECEMBER 31, 2021**

COUNTY LINE SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2021

TABLE OF CONTENTS

	PAGE
TITLE PAGE	i
TABLE OF CONTENTS	ii
ANNUAL FILING AFFIDAVIT	1
INDEPENDENT AUDITOR’S REPORT	2
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS	8
STATEMENT OF NET POSITION	9
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	10
STATEMENT OF CASH FLOWS.....	11
NOTES TO BASIC FINANCIAL STATEMENTS	13
REQUIRED SUPPLEMENTARY INFORMATION	20
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - BUDGET TO ACTUAL	21
NOTES TO STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - BUDGET TO ACTUAL	22
SUPPLEMENTARY INFORMATION.....	23
TSI-1. SERVICES AND RATES	24
TSI-2. ENTERPRISE FUND EXPENSES.....	26
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES.....	27
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS	28
COMPLIANCE SECTION	29
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.....	30

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS :

COUNTY OF HAYS :

I, _____, of County Line Special Utility District hereby swear, or affirm, that the District named above has reviewed and approved, at a meeting of the District’s Board of Trustees on the ____ day of _____, _____, its annual audit report of the fiscal period ended December 31, 2021, and that copies of the annual audit report have been filed in the District’s office located at 8870 Camino Real, Uhland, TX 78640.

This annual filing 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: _____, _____ By: _____
(Signature of District Official)

(Typed Name & Title of District Representative)

Sworn to and subscribed to before me this _____ day of _____, _____.

(Signature of Notary)

Commission expires on _____, _____
Notary Public in the State of Texas



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the County Line Special Utility District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise County Line Special Utility District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of County Line Special Utility District, as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of County Line Special Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

County Line Special Utility District's 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about County Line Special Utility District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 County Line Special Utility District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about County Line Special Utility District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 standards 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise County Line Special Utility District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2022 on our consideration of County Line Special Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering County Line Special Utility District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.
May 9, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of County Line Special Utility District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2021. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$18.6 million at December 31, 2021, an increase of \$2.6 million. The increase is mostly attributable to impact fees collected on new development.
- During the year, the District's operating revenues were \$337 thousand less than the \$3.7 million in operating expenses. Without depreciation, the operating loss was \$5 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), *the basic financial statements, required supplementary information*, and *supplementary information required by the Texas Commission on Environmental Quality*. The basic financial statements consist of the following statements:

- The *Statement of Net Position* shows the financial standing of the District as of the end of the year, including all assets and liabilities.
- The *Statement of Revenues, Expenses and Changes in Net Position* provides information about the activity of the District during the fiscal year. It reports revenues when incurred, regardless of when they are received, and expenses when incurred, regardless of when they are paid.
- The *Statement of Cash Flows* reports the sources and uses of cash during the fiscal year.

The financial statements also include notes that explain a few of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The final section of supplementary information provides even more information required by TCEQ.

FINANCIAL ANALYSIS OF THE DISTRICT

Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

The District's net position was \$18.6 million at December 31, 2021. Of this amount, \$9.2 million was invested in capital asset, and \$3.1 million was restricted from impact fees, leaving an unrestricted net position of \$6.3 million. (See Table A-1).

Table A-1
District's Net Position

	2021	2020*	Percentage Change
<i>Assets:</i>			
Cash and Investments	\$ 10,109,403	\$ 8,024,025	26%
Other Current Assets	1,024,258	984,929	4%
Capital Assets (Net)	<u>9,176,373</u>	<u>8,349,196</u>	10%
<i>Total Assets</i>	<u>20,310,034</u>	<u>17,358,150</u>	17%
<i>Liabilities:</i>			
Current	1,669,233	1,366,074	22%
Long Term	-	-	0%
<i>Total Liabilities</i>	<u>1,669,233</u>	<u>1,366,074</u>	22%
<i>Net Position:</i>			
Net Investment in Capital Assets	9,176,373	8,349,196	10%
Restricted	3,132,422	982,837	219%
Unrestricted	<u>6,332,006</u>	<u>6,660,043</u>	-5%
<i>Total Net Position</i>	<u>\$ 18,640,801</u>	<u>\$ 15,992,076</u>	17%

*2020 has been restated to reflect the results of a prior period adjustment.

The District's total operating revenues were \$3.4 million, an increase of 8% over the prior year. The operating expenses were \$3.7 million, also an increase of 10% over the prior year. Non-operating revenues increased from impact fees and line extensions. (See Table A-2)

Table A-2
Changes in District Net Position

	2021	2020*	Percentage Change
Operating Revenues	\$ 3,396,504	\$ 3,142,965	8%
Operating Expenses	<u>(3,733,045)</u>	<u>(3,388,005)</u>	10%
Operating Income (Loss)	(336,541)	(245,040)	37%
Non-operating Income (Expense)	<u>2,985,266</u>	<u>2,930,356</u>	2%
Change in Net Position	2,648,725	2,685,316	-1%
Net Position at Beginning of Year	<u>15,992,076</u>	<u>13,306,760</u>	
Net Position at End of Year	<u>\$ 18,640,801</u>	<u>\$ 15,992,076</u>	

*2020 has been restated to reflect the results of a prior period adjustment.

BUDGETARY HIGHLIGHTS

District revenues fell short of expectations in the budget by \$371 thousand. However, operating expenses were \$482 thousand under budget from lower than expected water purchases and professional fees. The net change in budgetary fund balance was an increase of \$3.0 million, \$167 thousand more than the budget anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2021, the District had invested \$12.6 million in a broad range of capital assets, including land, buildings, equipment, treatment plants, and distribution systems. Significant additions include ongoing water and sewer line projects to extend the system. (See Table A-3.) More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table A-3
District's Capital Assets

	<u>2021</u>	<u>2020*</u>	<u>Percentage Change</u>
Land	\$ 145,960	\$ 145,960	0%
Water Rights	708,950	708,950	0%
Building and Improvements	400,116	400,116	0%
Plant and Distribution System	10,108,097	9,391,687	8%
Machinery and Equipment	290,900	255,059	14%
Construction in Progress	<u>933,886</u>	<u>527,945</u>	<u>77%</u>
Totals at Historical Cost	<u>12,587,909</u>	<u>11,429,717</u>	<u>10%</u>
Total Accumulated Depreciation	<u>(3,411,536)</u>	<u>(3,080,521)</u>	<u>11%</u>
Net Capital Assets	<u>\$ 9,176,373</u>	<u>\$ 8,349,196</u>	<u>10%</u>

*2020 has been restated to reflect the results of a prior period adjustment.

Long-Term Debt

The District currently has no long-term debt. However, the District is committed to buy water from Canyon Regional Water Authority at rates sufficient to cover the outstanding debts of Canyon Regional Water Authority. More information about the relationship with Canyon Regional Water Authority can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2022 budget contemplates continued growth, both in water and wastewater connections. Income is expected to increase roughly 10% and increased expenditures on system expansion and water development are expected.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 8870 Camino Real, Umland, TX 78640.

BASIC FINANCIAL STATEMENTS

The basic financial statements include:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 10,109,403
Accounts Receivable	510,165
Impact Fees Receivable	408,687
Inventory	80,175
Prepaid Expense	25,231
<i>Total Current Assets</i>	11,133,661

<i>Capital Assets (net)</i>	9,176,373
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TOTAL ASSETS	20,310,034
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LIABILITIES

Current Liabilities:

Accounts Payable	255,635
Payroll Liabilities	608
Accrued Compensated Absences	12,768
Manager Retirement Agreement	144,000
Customer Deposits	1,047,645
Payable to Canyon Regional Water Authority	208,577
TOTAL LIABILITIES	1,669,233

NET POSITION

Net Investment in Capital Assets	9,176,373
Restricted:	
Water Impact Fees	3,132,422
Unrestricted	6,332,006
TOTAL NET POSITION	\$ 18,640,801

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021

OPERATING REVENUES

Water Sales	\$ 3,333,529
Wastewater Administrative Fees	27,870
Other Charges	35,105
TOTAL OPERATING REVENUES	<u>3,396,504</u>

OPERATING EXPENSES

Water Purchase	1,507,967
Personnel	749,228
Operations and Maintenance	555,234
Depreciation	331,015
Professional Fees	377,907
Admin Expenses	88,563
Vehicles and Equipment	44,374
Utilities	51,263
Insurance	27,494
TOTAL OPERATING EXPENSES	<u>3,733,045</u>

OPERATING INCOME (LOSS)	<u>(336,541)</u>
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NON-OPERATING REVENUES (EXPENSES)

Interest Income	6,063
Impact and Installation Fees	3,213,412
Other Income	52,508
Grant and Line Relocation Income	94,162
Alliance Regional Water Authority Funding	(380,801)
Interest Expense	(78)
TOTAL NON-OPERATING REVENUES	<u>2,985,266</u>

CHANGE IN NET POSITION	2,648,725
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Net Position at Beginning of Year	13,429,160
Prior Period Adjustment	2,562,916
Net Position at End of Year	<u>\$ 18,640,801</u>

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 3,550,967
Cash Payments to Suppliers for Goods and Services	(2,712,260)
Cash Payments to Employees for Services	<u>(749,016)</u>
Net Cash Provided (Used) by Operating Activities	<u>89,691</u>
 Cash Flows from Capital and Related Financing Activities	
Impact and Installation Fees	3,381,025
Grants and Line Relocation Income Received	95,162
Interest Expense	(78)
Alliance Regional Water Authority Funding	(380,801)
Purchase of Property, Plant and Equipment	<u>(1,158,192)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>1,937,116</u>
 Cash Flows from Investing Activities	
Other Cash Receipts	52,508
Interest and Investment Income	<u>6,063</u>
Net Cash Provided (Used) by Investing Activities	<u>58,571</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 2,085,378
 Beginning Cash and Cash Equivalents	 <u>8,024,025</u>
 Ending Cash and Cash Equivalents	 <u>\$ 10,109,403</u>

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021

Reconciliation of Operating Income to Net Cash Provided (Used)	
by Operating Activities	
Operating Income (Loss)	\$ (336,541)
Adjustments to Reconcile Income from Operations to Net Cash	
Provided by Operating Activities:	
Depreciation	331,015
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(116,507)
(Increase) Decrease in Inventory	(70,350)
(Increase) Decrease in Prepaid Expenses	(21,085)
Increase (Decrease) in Accounts Payable	50,727
Increase (Decrease) in Payroll Liabilities	108
Increase (Decrease) in Accrued Compensated Absences	104
Increase (Decrease) in Customer Deposits	270,970
Increase (Decrease) in Payable to Canyon Regional Water Authority	(18,750)
Net Cash Provided (Used) by Operating Activities	\$ 89,691

COUNTY LINE SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

County Line Special Utility District (the “District”) was created pursuant to the provisions of Texas Water Code chapters 49 and 65 and Texas Administrative Code 293.11 and 293.12 to acquire sources of water supply, maintain infrastructure to treat and deliver that water, and sell water to customers. Originally, organized as a water supply corporation, the District was formed in 2010. The District is managed by a Board of Directors consisting of seven members elected by voters residing in the District’s boundaries. The District serves customers in Hays and Caldwell counties.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below:

1. REPORTING ENTITY

In evaluating how to define the government for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14, “The Financial Reporting Entity” and GASB Statement 39 “Determining Whether Certain Organizations are Component Units”. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The District has no component units.

2. ENTERPRISE FUND

The District is an enterprise fund. Enterprise funds are proprietary funds used to account for business-type activities provided to the general public or other governmental entities. The activities are financed by charges to customers and the measurement of financial activity focuses on net income similar to the private sector. Revenues are recognized when earned, and expenses are recognized when incurred.

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Revenues are classified as *operating* and *non-operating*. Operating revenues include charges to customers for water and wastewater services. Non-operating revenues include customer charges for capital expansion and interest income.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

COUNTY LINE SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. CASH AND INVESTMENTS

State statutes authorize the District to invest in (a) obligations of the United States or its agencies, and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) – (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

Investments are stated at fair value (plus accrued interest) except for money market, certificates of deposit, local government investment pools, and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost, which approximates fair value.

The District considers cash and cash equivalents to be amounts in checking accounts, savings accounts, money market accounts, and local government investment pools.

5. ACCOUNTS RECEIVABLE

Customers are billed monthly for services and recorded as revenue in the period of the service. Often bills are issued in subsequent months for water consumption in the previous month. Revenue earned in a previous period is recorded as an unbilled receivable at the end of each period. Accounts receivable consists of amounts due from customers for services rendered and is presented net of an allowance for doubtful accounts based on management's estimate.

Impact fees are billed at the time of plat approval. However, new customers are allowed to defer part of the payment, at the time of plat approval, until the meter is installed. The balance owed is recorded on the balance sheet as a receivable.

6. INVENTORY

Inventory consists of pipe, fittings, pumps and meters. Inventory is reported at the lower of cost or market based on the first in-first out method.

7. PREPAID EXPENSES

Expenses paid during the year that have a benefit beyond the current fiscal year are recorded on the balance sheet as prepaid expenses.

COUNTY LINE SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, water rights, and water plant and distribution systems, are recorded at cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest has been capitalized during the construction periods on water plant and distribution systems. Purchases in excess of \$5,000 with a useful life in excess of one year are capitalized and depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 to 40 years
Equipment	5 to 10 years
Water Plants and Distribution Systems	5 to 50 years

9. DEFERRED INFLOWS AND OUTFLOWS

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

10. CUSTOMER DEPOSITS

Upon the creation of a new account, customers make a deposit toward their final bill. The amount is recorded as customer deposits liability on the Statement of Net Position. In addition, developers make advance deposits towards feasibility studies. Any excess deposits are refunded after the District has paid all costs incurred.

11. LONG-TERM OBLIGATIONS

Bonds, notes and capital leases are recorded as liabilities on the statement of net position. Bond issue costs and premiums are expensed in the period they are incurred. Bonds payable are reported net of the applicable bond premium or discount. Interest costs are expensed during the construction period.

12. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When expenses qualify for restricted and unrestricted resources, the District's policy is to use restricted resources first.

COUNTY LINE SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. BUDGET

An operating budget is adopted each fiscal year for the District. The budget is adopted on a cash basis of accounting internally and converted to accrual basis for financial reporting. Additional budgetary information is provided in the required supplementary information.

14. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B -- CASH AND INVESTMENTS

1. Cash and Cash Equivalents

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledge securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. At December 31, 2021, the District's bank deposits were covered by a combination of federal deposit insurance and pledged securities. All of the District's deposits were fully collateralized.

2. Investments

As of December 31, 2021, the District's investments consisted of the Logic local government investment pools presented at net asset value. The pool maintains a AAAM rating and a stable net asset value of \$1.00 per share. The pool is a 2a7-like pool which is not registered with the Securities and Exchange Commission 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. Therefore, the pool is reported at \$1 per share, which approximates fair value and is included in cash and cash equivalents. The amount invested in Logic at December 31, 2021 is \$8,641,838.

NOTE C -- ACCOUNTS RECEIVABLE

District receivables as of December 31, 2021, consisted of the following:

Customer Balances	\$ 354,122
Unbilled Services Rendered	156,043
Total Accounts Receivable	<u>\$ 510,165</u>

COUNTY LINE SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021

NOTE D -- CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

	Balances at 1/1/21*	Additions	Transfers/ Disposals	Balances at 12/31/2021
Land	\$ 145,960	\$ -	\$ -	\$ 145,960
Water Rights	708,950	-	-	708,950
Building and Improvements	400,116	-	-	400,116
Plant and Distribution System	9,391,687	173,488	542,922	10,108,097
Machinery and Equipment	255,059	35,841	-	290,900
Construction in Progress	527,945	948,863	(542,922)	933,886
	<u>11,429,717</u>	<u>1,158,192</u>	<u>-</u>	<u>12,587,909</u>
<i>Less Accumulated Depreciation</i>				
Building and Improvements	(82,228)	(14,395)	-	(96,623)
Plant and Distribution System	(2,856,901)	(290,451)	-	(3,147,352)
Machinery and Equipment	(141,392)	(26,169)	-	(167,561)
	<u>(3,080,521)</u>	<u>(331,015)</u>	<u>-</u>	<u>(3,411,536)</u>
Capital Assets, Net	<u>\$ 8,349,196</u>	<u>\$ 827,177</u>	<u>\$ -</u>	<u>\$ 9,176,373</u>

Land and Construction in Progress are not depreciated.

*Beginning balances have been restated from the results of a prior period adjustment.

NOTE E -- COMMITMENTS

As of December 31, 2021, the District had the following commitments:

	Total Commitment	Expended to Date	Estimated Remaining
Umland Wastewater Line	\$ 511,640	\$ 215,000	\$ 296,640
Engineering Services	672,780	248,714	424,066
	<u>\$ 1,184,420</u>	<u>\$ 463,714</u>	<u>\$ 720,706</u>

In addition, in 2021, the District signed an agreement to buy water through Alliance Regional Water Authority from the City of San Marcos for an estimated monthly fee of \$7,745 plus \$3.21 per thousand gallons taken through December 31, 2023.

COUNTY LINE SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021

NOTE F -- WASTEWATER SERVICES

The District does not currently have wastewater services as part of its CCN. However, the District has constructed wastewater lines to carry sewage from District water customers that are part of the Plum Creek Utility (PCU) wastewater CCN from their homes to the PCU treatment plant. The District bills these customers for water and sewer service. The District collects an impact fee for the wastewater line build out and a portion of the monthly wastewater charge to cover maintenance on those lines.

NOTE G -- JOINT VENTURE – CANYON REGIONAL WATER AUTHORITY

The District is a member entity of Canyon Regional Water Authority (CRWA) through a regional taxable water supply contract. CRWA was created to purchase, own, hold, lease and otherwise acquire sources of potable water; build, operate and maintain facilities for the treatment and transportation of water; sell potable water to local governments, water supply corporations and other persons in Texas; to protect, preserve and restore the purity and sanitary condition of water in the area. The participating entities, of which there are 13, are contractually obligated to fund a pro-rata portion of CRWA's operating, debt service and project costs. The District has pledged its system revenues to fund its share of CRWA costs and debts (approximately 5%). For the fiscal year ended September 30, 2021, CRWA reported assets of \$188 million and liabilities of \$135 million, including bonds payable of \$127 million. Annual required funding payments are recorded as water purchases on the District's financial statements.

In addition, CRWA is a member of Alliance Regional Water Authority (ARWA) under a similar arrangement. In 2014, the District agreed to reimburse CRWA for 10% of CRWA's share of ARWA (which is approximately 31% of ARWA) in exchange for a pro-rata share of the future water developed by ARWA. The agreement required the District to fund the annual requirements in addition to the past costs incurred by CRWA in relation to the ARWA project. The District makes regular contributions for annual funding, but is not required at this time to make payments on the prior costs, which are recognized as a liability on the Statement of Net Position in the amount of \$208,577. For the fiscal year ended September 30, 2021 (the most recent year available), ARWA reported assets of \$282 million and liabilities of \$247 million, including bonds payable of \$240 million. ARWA is not yet producing water for District use, so annual required funding payments are recorded as a nonoperating expense on the District's financial statements.

NOTE H -- MANAGER RETIREMENT PAYABLE

In February 2016, the District agreed to pay the General Manager \$144,000 over 48 months upon his retirement or death. Payments will begin upon his retirement announcement and will continue until the full amount is paid to the General Manager or his heirs.

NOTE I -- LITIGATION

The District is subject to various claims regarding easements, decertifications from the District's CCN, water rights and impact fees. If decided adversely to the District, the outcomes would not be expected to have a significant impact on these financial statements. No loss contingencies have been recorded.

COUNTY LINE SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021

NOTE J -- PRIOR PERIOD ADJUSTMENT

Adjustments were made to the December 31, 2020 financial statements to correct errors as follows:

Beginning Net Position, Previously Reported	\$ 13,429,160
Unrecorded Unbilled Revenue	126,236
Overstated Impact Fee Receivables	(1,926,676)
Overstated Prepaid Expenses	(295,854)
Remove Capital Assets Owned by CRWA	(8,300,368)
Understated Capital Assets	430,024
Overstated SUD Conversion Costs	(104,954)
Overstated Payroll Liabilities	2,961
Overstated Accounts Payable	128,180
Unrecorded Accrued Compensated Absences	(12,664)
Understated Customer Deposits	(99,517)
Unrecorded Manager Retirement Payable	(144,000)
Overstated Payable to CRWA	35,173
Overstated Deferred Revenue	3,972,696
Remove Debt Owed by CRWA	8,751,679
Beginning Net Position, Restated	<u><u>\$ 15,992,076</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY LINE SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2021

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget- Positive (Negative)
	Original	Final		
Operating Revenues:				
Water Sales	\$ 3,513,770	\$ 3,513,770	\$ 3,333,529	\$ (180,241)
Waterwater Admin Charges	12,608	12,608	27,870	15,262
Other Charges	241,566	241,566	35,105	(206,461)
Total Operating Revenues	3,767,944	3,767,944	3,396,504	(371,440)
Operating Expenses:				
Water Purchase	1,800,789	1,800,789	1,507,967	292,822
Personnel	683,971	683,971	749,228	(65,257)
Operations and Maintenance	648,910	648,910	555,234	93,676
Professional Fees	535,483	535,483	377,907	157,576
Admin Expenses	111,157	111,157	88,563	22,594
Vehicles and Equipment	25,274	25,274	44,374	(19,100)
Utilities	51,342	51,342	51,263	79
Insurance	27,503	27,503	27,494	9
Total Operating Expenses	3,884,429	3,884,429	3,402,030	482,399
Operating Income (Loss)	(116,485)	(116,485)	(5,526)	110,959
Non-Operating Revenues (Expenses):				
Interest Income	30,000	30,000	6,063	(23,937)
Impact and Installation Fees	3,238,648	3,238,648	3,213,412	(25,236)
Other Income	30,480	30,480	52,508	22,028
Grants and Line Relocation Income	-	-	94,162	94,162
Alliance Regional Water Authority	(370,032)	(370,032)	(380,801)	(10,769)
Interest Expense	-	-	(78)	(78)
Non-Operating Revenues	2,929,096	2,929,096	2,985,266	56,170
Net Income Budgetary Basis	\$ 2,812,611	\$ 2,812,611	\$ 2,979,740	\$ 167,129

COUNTY LINE SPECIAL UTILITY DISTRICT
NOTES TO STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2021

The budget is prepared on a modified accrual basis of accounting. The annually adopted budget is not a legally binding document, but is used as a planning tool. The District does not use encumbrance accounting.

The following schedule reconciles the budgetary basis to generally accepted accounting principles.

Net Income (Budgetary Basis)	\$ 2,979,740
Depreciation	<u>(331,015)</u>
Change in Net Position (GAAP Basis)	<u><u>\$ 2,648,725</u></u>

SUPPLEMENTARY INFORMATION

The following Supplementary Information is required to be included as additional information by the Texas Commission on Environmental Quality (TCEQ).

COUNTY LINE SPECIAL UTILITY DISTRICT
TSI-1. SERVICES AND RATES
FISCAL YEAR ENDING DECEMBER 31, 2021

1. Services Provided by the District during the Fiscal Year:

- | | | |
|---|---|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water | <input checked="" type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system, and/or wastewater service (other than emergency interconnect) | | |
| <input checked="" type="checkbox"/> Other (specify): <u>Wastewater transportation</u> | | |

2. Retail Service Providers

Retail Rates for a 5/8" Meter	Minimum Charge	Minimum Usage	Flat Rate	Rate per 1,000 Gallons Over Minimum	Usage Level
Water	\$ 36.50	N/A	No	\$ 3.25	0 to 5,000
				\$ 3.25	5,000 to 10,000
				\$ 3.50	10,000 to 15,000
				\$ 3.75	15,000 to 20,000
				\$ 4.00	Over 20,000
Wastewater	\$ 65.00	N/A	Yes	\$ -	0 to 5,000
				\$ -	Over 5,000
Surcharge	\$ -			\$ -	

District employs winter averaging for wastewater usage? No

Total Charges per 10,000 gallons usage:

Water	<u>\$ 69.00</u>
Wastewater	<u>\$ 65.00</u>

Water and Wastewater Retail Connections

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	0	0	1.0	0
<=3/4"	4,472	4,472	1.0	4,472
1"	14	14	2.5	35
1 1/2"	2	2	5.0	10
2"	5	5	8.0	40
3"	1	1	15.0	15
4"	4	4	25.0	100
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>4,498</u>	<u>4,498</u>		<u>4,672</u>
Total Wastewater	<u>451</u>	<u>451</u>	1.0	<u>451</u>

COUNTY LINE SPECIAL UTILITY DISTRICT
 TSI-1. SERVICES AND RATES (CONTINUED)
 FISCAL YEAR ENDING DECEMBER 31, 2021

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):

Gallons pumped into system	382,933		Water Accountability Ratio: (Gallons billed/Gallons pumped)
Gallons billed to customers:	327,768		86%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby Fees? Yes No

If yes, Date of the most recent Commission Order: _____

Does the District have Operation and Maintenance standby fees? Yes No

If yes, Date of the most recent Commission Order: _____

5. Location of District:

Counties in which the District is located: Caldwell, Hays

Is the District located entirely within one county? Yes No

Is the District located within a city? Entirely Partly Not at all

Cities in which the District is located: Uhland, Kyle

Is the District located within a city's extra territorial jurisdiction (ETJ)?
 Entirely Partly Not at all

ETJs in which the District is located: Uhland, Kyle, San Marcos

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

COUNTY LINE SPECIAL UTILITY DISTRICT
 TSI-2. ENTERPRISE FUND EXPENSES
 FISCAL YEAR ENDING DECEMBER 31, 2021

Personnel Expenditures (including benefits)		\$	749,228
Professional Fees:			
Legal			128,716
Engineering			227,853
Accounting and Audit			8,000
Other			13,338
Water and Transmission Costs			1,507,967
Utilities			51,263
Repairs and Maintenance			599,608
Administrative Expenses			116,057
Depreciation and Amortization			331,015
Interest			<u>78</u>
Total Expenses		\$	<u><u>3,733,123</u></u>
Total number of persons employed by the District	Full-Time		<u>11</u>
	Part-Time		<u>0</u>

The following sections have been omitted since they do not pertain to this entity:

- TSI-3. Temporary Investments
- TSI-4. Taxes Levied and Receivable
- TSI-5. Long-term Debt Service Requirements
- TSI-6. Changes in Long-term Bonded Debt

COUNTY LINE SPECIAL UTILITY DISTRICT
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
FISCAL YEAR ENDING DECEMBER 31, 2021

						Percent of Total Revenues				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Operating Revenues:										
Water Sales	\$ 2,282,953	\$ 2,452,238	\$ 2,927,322	\$ 3,055,139	\$ 3,333,529	97.5%	99.7%	99.8%	94.2%	98.1%
Wastewater Admin Charges	-	-	1,185	8,405	27,870	0.0%	0.0%	0.0%	0.3%	0.8%
Other Charges	57,933	6,300	4,048	178,938	35,105	2.5%	0.3%	0.1%	5.5%	1.0%
Total Operating Revenues	2,340,886	2,458,538	2,932,555	3,242,482	3,396,504	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses:										
Water Purchase	1,054,916	1,004,965	1,189,825	1,459,396	1,507,967	45.1%	40.9%	40.6%	45.0%	44.4%
Personnel	365,581	476,854	692,723	659,432	749,228	15.6%	19.4%	23.6%	20.3%	22.1%
Depreciation	292,965	387,984	445,487	475,754	331,015	12.5%	15.8%	15.2%	14.7%	9.7%
Operations and Maintenance	247,261	324,127	288,147	302,416	555,234	10.6%	13.2%	9.8%	9.3%	16.3%
Professional Fees	59,140	69,271	200,104	431,533	377,907	2.5%	2.8%	6.8%	13.3%	11.1%
Admin Expenses	38,883	50,159	52,784	107,409	88,563	1.7%	2.0%	1.8%	3.3%	2.6%
Vehicles and Equipment	24,988	20,608	27,090	22,751	44,374	1.1%	0.8%	0.9%	0.7%	1.3%
Utilities	42,579	39,473	42,770	48,914	51,263	1.8%	1.6%	1.5%	1.5%	1.5%
Insurance	18,682	20,300	27,110	25,003	27,494	0.8%	0.8%	0.9%	0.8%	0.8%
Total Operating Expenses	2,144,995	2,393,741	2,966,040	3,532,608	3,733,045	91.6%	97.4%	101.1%	108.9%	109.9%
Operating Income (Loss)	195,891	64,797	(33,485)	(290,126)	(336,541)	8.4%	2.6%	-1.1%	-8.9%	-9.9%
Non-Operating Revenues (Expenses):										
Interest Income	34,408	78,661	93,141	46,622	6,063	1.5%	3.2%	3.2%	1.4%	0.2%
Impact and Installation Fees	788,349	1,563,500	1,590,118	2,869,949	3,213,412	33.7%	63.6%	54.2%	88.5%	94.6%
Other Income	23,011	7,846	35,526	27,540	52,508	1.0%	0.3%	1.2%	0.8%	1.5%
Grants and Line Relocation Income	-	-	-	-	94,162	0.0%	0.0%	0.0%	0.0%	2.8%
Alliance Regional Water Authority	(365,436)	(127,035)	(161,498)	(261,112)	(380,801)	-15.6%	-5.2%	-5.5%	-8.1%	-11.2%
Interest Expense	-	-	-	-	(78)	0.0%	0.0%	0.0%	0.0%	0.0%
Total Non-Operating Revenues (Expenses)	480,332	1,522,972	1,557,287	2,682,999	2,985,266	20.5%	61.9%	53.1%	82.7%	87.9%
Change in Net Position	\$ 676,223	\$ 1,587,769	\$ 1,523,802	\$ 2,392,873	\$ 2,648,725	28.9%	64.6%	52.0%	73.8%	78.0%

**Prior periods have not been restated for the results of the prior period adjustment.*

COUNTY LINE SPECIAL UTILITY DISTRICT
 TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
 FISCAL YEAR ENDING DECEMBER 31, 2021

Complete Entity Mailing Address: 8870 Camino Real, Umland, TX 78640

Entity Business Telephone Number: 512-398-4748

Submission Date of the most recent Registration Form: May 2021

Limit of Fees of Office that a Trustee may receive during a fiscal year: \$7,200

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid* 12/31/21	Expense Reimbursements 12/31/21	Title at Year End
Board of Trustees:				
Chris Betz	5/18-5/24	\$ 5,931	\$ 954	President
Rene Harbinson	4/20-5/22	\$ 600	---	Vice President
Toni Brewer	5/18-5/24	\$ 950	---	Secretary
Robert Diaz	5/20-5/23	\$ 900	---	President
Ken Dodson	5/19-5/22	\$ 750	---	Director
Joe Howe	9/19-5/22	\$ 950	---	Director
William Ilse	5/17-5/23	\$ 675	---	Treasurer
Administrative Personnel:				
Daniel Heideman	9/1/1981	\$ 118,474	\$ 1,989	General Manager
Consultants:				
Southwest Engineers		\$ 286,831		Engineer
Lloyd Gosselink Attorneys at Law		\$ 167,277		Attorney
Donald Allman, CPA, PC		\$ 8,000		Auditor
Cobb Fendley		\$ 6,384		ROW Agent
Davidson, Troilo, Ream & Garza		\$ 2,659		Attorney

*Fees of Office are the amounts actually paid to a director during the District's fiscal year.

COMPLIANCE SECTION



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*

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
County Line Special Utility District

We have audited, 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, the financial statements of County Line Special Utility District as of December 31, 2021 and for the year then ended, and the related notes to the financial statements, which collectively comprise County Line Special Utility District's basic financial statements, and have issued our report thereon dated May 9, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered County Line Special Utility 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of County Line Special Utility District's internal control. Accordingly, we 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we 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 County Line Special Utility District's financial statements are free from 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 certain matters that we have reported to management of County Line Special Utility District in a separate letter dated May 9, 2022.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of 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.

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.

May 9, 2022