

COUNTY LINE SPECIAL UTILITY DISTRICT

Comparative Financial Statements
With TSI Supplementary Information

December 31, 2019

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 _____, 2020 its annual audit report for the fiscal period ended December 31, 2019 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: _____, 2020 By: _____

Sworn to and subscribed to before me this _____ day of _____, 20____.

My commission expires on: _____
Notary Public in the State of Texas

COUNTY LINE SPECIAL UTILITY DISTRICT
Annual Financial Report
For the Year Ended December 31, 2019

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williams crow mask

Deep roots. Deep resources. Deep in the heart of Texas

Independent Auditor's Report

Board of Directors
County Line Special Utility District
Uhland, Texas

We have audited the accompanying financial statements of the County Line Special Utility District (District) as of and for the year ended December 31, 2019, 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

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, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

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, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the 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 standard generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 required by the Texas Commission on Environmental Quality 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 31, 2020 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.

Williams, Crow, Mask LLP

Williams, Crow, Mask, LLP
May 31, 2020
San Antonio, Texas

COUNTY LINE SPECIAL UTILITY DISTRICT
Management's Discussion and Analysis
December 31, 2019

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 year ended December 31, 2019 and 2018. 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

- Total assets increased \$7,233,755 to \$24,900,196.
- Total liabilities increased \$5,709,954 to \$13,863,909.
- Total net position increased \$1,523,801 to \$11,036,287.
- Net operating revenues increased \$499,434.
- Net operating expenses increased \$595,467.

Required Basic 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 five components: (1) the independent auditor's report; (2) management's discussion and analysis (MD&A); (3) The Statement of Net Position which include all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities); (4) The Statement of Revenues, Expenses and Changes in Net Position shows the business-type activities of the District and provides information regarding income and expenses, both operating and non-operating, that affect the Net Position; and (5) 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 and noncapital financing activities.

Notes to the Financial Statements

Integral to the financial statements are the notes to the basic 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 clear 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.

Other Required/Supplementary Information

In addition to the basic financial statements and accompanying notes, this section also represents certain required supplementary information (RSI) and other supplementary information required by TCEQ which may be beneficial to the reader. This information is in conformity with Generally Accepted Accounting Principles (GAAP).

COUNTY LINE SPECIAL UTILITY DISTRICT

Management's Discussion and Analysis

December 31, 2019

Financial Analysis of The District

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

District Net Position

	2019	2018
Cash and investments	\$ 6,662,352	\$ 4,249,561
Other current assets	470,989	172,752
Capital assets, net	15,642,583	12,944,128
Other assets	2,124,272	300,000
Total Assets	24,900,196	17,666,441
Current liabilities	1,588,850	946,490
Long-term liabilities	12,275,059	7,207,465
Total Liabilities	13,863,909	8,153,955
Net investment in capital assets	6,514,792	6,338,653
Unrestricted	4,521,495	3,173,833
Total Net Position	11,036,287	9,512,486
Total Liabilities and Net Position	\$ 24,900,196	\$ 17,666,441

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position for the two years ended December 31, 2019 and 2018.

Changes in District Net Position

	2019	2018
Operating revenues	\$ 4,522,672	\$ 4,023,238
Operating expenses	2,850,389	2,254,922
Operating Income (Loss)	1,672,283	1,768,316
Non-operating income (expense)	(148,482)	(180,547)
Change in Net Position	\$ 1,523,801	\$ 1,587,769

COUNTY LINE SPECIAL UTILITY DISTRICT

Management's Discussion and Analysis

December 31, 2019

Capital Assets and Debt

Capital Assets

As of December 31, 2019, the District had invested \$20.4 million in a broad range of capital assets, including land, buildings, equipment, plants, and distribution systems. Significant additions include water rights with ARWA, system improvements/additions, wastewater additions and construction in process related to system line additions. More detailed information about the District's capital assets is presented in the notes to the financial statements.

District's Capital Assets

	<u>2019</u>	<u>2018</u>
Land	\$ 145,960	\$ 145,960
Water rights	5,328,993	2,591,097
SUD conversion and legal fees	157,181	157,181
System	7,595,177	7,474,235
Equipment	125,237	125,237
Water plants	5,777,681	5,777,681
Wastewater	628,109	603,971
Building and improvements	358,896	242,581
Vehicles	124,252	124,252
Construction in process	144,651	-
Totals at cost	<u>20,386,137</u>	<u>17,242,195</u>
Total accumulated depreciation	(4,743,554)	(4,298,067)
Net capital assets	<u>\$ 15,642,583</u>	<u>\$ 12,944,128</u>

Long-Term Debt

At year-end, the District had \$9 million in principal outstanding on notes. New debt in the amount of \$2,737,896 was issued in 2019. More detailed information about the District's debt is presented in the notes to the financial statements.

District's Long Term Debt

	<u>2019</u>	<u>2018</u>
Notes payable	\$ 9,014,178	\$ 6,495,959
Totals at cost	<u>\$ 9,014,178</u>	<u>\$ 6,495,959</u>

COUNTY LINE SPECIAL UTILITY DISTRICT

Management's Discussion and Analysis

December 31, 2019

Budgetary Highlights

The District's revenues exceeded expectations by \$1.1 million, primarily because of an increase in water sales and other charges such as meter impact fees and installations. Operating expenses were \$493 thousand more than the budget. The overall change in net position was an increase of \$1.67 million, which is \$637 thousand more than what the budget anticipated.

Economic Factors and Next Year's Budget

The 2020 budget contemplates continued income and expenditures from the new wastewater agreement with Plum Creek Utility. Water rates are not expected to increase. Aside from the Plum Creek Utility agreement, the District expects no major changes to services or operations.

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:

Street and Mailing address:

8870 Camino Real
Kyle, Texas, 78640

Phone: (512-398-4748)

COUNTY LINE SPECIAL UTILITY DISTRICT

Statement of Net Position

December 31, 2019

Current assets:	
Cash	\$ 1,896,604
Investments	4,765,748
Accounts receivable, net	456,489
Inventory	14,500
Total Current Assets	<u>7,133,341</u>
Capital assets, net	<u>15,642,583</u>
Other assets:	
CRWA membership	281,250
Reserved meter receivables	1,843,022
	<u>2,124,272</u>
Total Assets	<u><u>24,900,196</u></u>
Current liabilities:	
Accounts payable	309,829
Payroll liabilities	153,666
Accrued interest	23,268
Customer deposits	677,158
Current portion of long-term debt	424,929
Total Current Liabilities	<u>1,588,850</u>
Notes payable, net of current portion	<u>8,589,249</u>
Other liabilities:	
Reserved meters	3,685,810
	<u>3,685,810</u>
Total Liabilities	<u>13,863,909</u>
Net position:	
Capital assets in excess of debt	6,514,792
Unrestricted	4,521,495
	<u>11,036,287</u>
Total Net Position	<u>11,036,287</u>
Total Liabilities and Net Position	<u><u>\$ 24,900,196</u></u>

See Accompanying Notes to the Financial Statements and the Auditor's Report

COUNTY LINE SPECIAL UTILITY DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2019

Operating revenue:	
Water sales	\$ 2,926,322
Water impact fees	1,314,230
Wastewater service charges	1,185
Wastewater impact fees	60,063
Other charges	220,872
Total operating revenues	4,522,672
Operating expenses	2,850,389
Operating income (loss)	1,672,283
Non-operating revenues (expenses)	
Rental income	35,526
Interest income	93,141
Interest expense	(276,396)
Other expense	(753)
Total non-operating revenues (expenses)	(148,482)
Change in net position	1,523,801
Net position at beginning of year	10,017,504
Prior period adjustment	(505,018)
Net position at end of year	\$ 11,036,287

See Accompanying Notes to the Financial Statements and the Auditor's Report

COUNTY LINE SPECIAL UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended December 31, 2019

Cash flow from operating activities	
Cash received from customers	\$ 5,093,691
Operating costs	(1,589,728)
Payments to employees for services	(340,235)
Net cash flow provided by operating activities	<u>3,163,728</u>
Cash flows from capital and related financing activities	
Proceeds from note	2,737,896
Principal paid on debt	(219,676)
Interest paid	(253,128)
Purchase of property, plant and equipment	(2,999,292)
Construction in process	(144,651)
Net cash used by capital and related financing activities	<u>(878,851)</u>
Cash flows from investing activities	
Interest and investment income	127,914
Net cash provided by investing activities	<u>127,914</u>
Net increase (decrease) in cash and cash equivalents	2,412,791
Beginning cash and cash equivalents	4,249,561
Ending cash and cash equivalents	<u><u>\$ 6,662,352</u></u>

See Accompanying Notes to the Financial Statements and the Auditor's Report

COUNTY LINE SPECIAL UTILITY DISTRICT

Statement of Cash Flows (Continued)
For the Year Ended December 31, 2019

Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,672,283
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	445,487
Changes in operating assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	(298,237)
Operating fees	18,750
Reserved meters	(1,843,022)
Increase (decrease) in liabilities:	
Accounts payable	309,819
Payroll liabilities	146,370
Deferred revenue	2,619,920
Customer deposits	92,358
Net cash flow provided by operating activities	\$ 3,163,728

See Accompanying Notes to the Financial Statements and the Auditor's Report

COUNTY LINE SPECIAL UTILITY DISTRICT

Notes to the Financial Statements

December 31, 2019

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 Corporation 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 in June of 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.

The District is legally separate and is fiscally independent of other state and local governments, it is a primary government and not included in any other governmental reporting entity. The District has no component units.

2) Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The District is reported as a special-purpose government engaged in business-type activities. The financial statements of the District measure and report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, and gains and losses using the economic resources measurement focus and accrual basis of accounting.

Basis of Presentation

Net position and revenue, expenses, gains, and losses are classified based on the existence or absence of grantor-imposed restrictions. Net position of the District and changes therein are classified as unrestricted net position. Unrestricted net position represents the portion of expendable funds that is available for support of the operations of the District. 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 the Financial Statements

December 31, 2019

2) Summary of Significant Accounting Policies (Continued)

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.

Cash and Cash Equivalents

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.

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.

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.

Use of 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.

COUNTY LINE SPECIAL UTILITY DISTRICT

Notes to the Financial Statements

December 31, 2019

2) Summary of Significant Accounting Policies (Continued)

Customer Deposits

Upon 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.

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 50 years
Equipment	3 to 10 years
Water Plants and Distributions Systems	20 to 50 years

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."

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.

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.

COUNTY LINE SPECIAL UTILITY DISTRICT

Notes to the Financial Statements

December 31, 2019

2) Summary of Significant Accounting Policies (Continued)

Compensated Absences

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 in Hours	Carry Over Amount in Hours
Vacation	1-3	40	None
	4-10	80	None
	Over 10	120	None
Sick	All	48	160

3) Cash and Investments

Cash

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. As of year-end, the District's bank deposits were covered by a combination of federal deposit insurance and pledged securities.

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.

COUNTY LINE SPECIAL UTILITY DISTRICT

Notes to the Financial Statements

December 31, 2019

3) Cash and Investments (Continued)

Investments (Continued)

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) banker's 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.

As of December 31, 2019, the District had \$4,765,748 in a local government investment pool account.

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. 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.

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.

COUNTY LINE SPECIAL UTILITY DISTRICT

Notes to the Financial Statements

December 31, 2019

4) Receivables

Accounts receivable from members represent unpaid water usage. At December 31, 2019 the amount is as follows:

Customer balances	\$	456,489
Allowance for doubtful		-
	\$	<u>456,489</u>

5) 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 dated August 1, 1998. 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 12, are contractually obligated to fund a pro-rata portion of CRWA's operating, debt service and project costs. The District participates in the repayment of the CRWA bond indebtedness. Principal and interest payments are made to CRWA monthly. The District receives approximately 43% of the related debt.

In addition, CRWA is a member of Alliance Regional Water Authority under a similar arrangement. In 2015, the District agreed to reimburse CRWA for their share of Alliance in exchange for the future water developed by Alliance. The agreement required the District to fund the annual requirements related to the Alliance project. The District is responsible for approximately 10% of CRWA's debt to Alliance, which equates to, the District being responsible for approximately 3% of Alliance's total debt. Principal and interest payments are made monthly to CRWA.

6) Risk Management

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.

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.

COUNTY LINE SPECIAL UTILITY DISTRICT

Notes to the Financial Statements

December 31, 2019

7) Capital Assets

As of December 31, 2019, the District had \$11,036,287 in Net Position. The District had capital assets in excess of related debt in the amount of \$6,514,792.

A summary of changes in capital assets for the year ended December 31, 2019, follows:

	<u>Balances at 12/31/18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances at 12/31/19</u>
Capital Assets				
Non-depreciable:				
Land and easements	145,960	-	-	145,960
Water rights	2,591,097	2,737,896	-	5,328,993
Total assets non-depreciable	<u>2,737,057</u>	<u>2,737,896</u>	-	<u>5,474,953</u>
Depreciable:				
SUD conversion and legal fees	157,181	-	-	157,181
System	7,474,235	120,944	-	7,595,179
Equipment	125,237	-	-	125,237
Water plants	5,777,681	-	-	5,777,681
Waste water	603,971	24,137	-	628,108
Building and improvements	242,581	116,314	-	358,895
Vehicles	124,252	-	-	124,252
Total assets depreciable	<u>14,505,138</u>	<u>261,395</u>	-	<u>14,766,533</u>
Less accumulated depreciation	<u>4,298,067</u>	<u>445,487</u>	-	<u>4,743,554</u>
Total depreciable assets, net	<u>10,207,071</u>	<u>(184,092)</u>	-	<u>10,022,979</u>
Construction in process	-	144,651	-	144,651
Total assets	<u><u>12,944,128</u></u>	<u><u>2,698,455</u></u>	-	<u><u>15,642,583</u></u>

Depreciation was \$445,487.

Land, water rights and construction in process are not depreciated.

COUNTY LINE SPECIAL UTILITY DISTRICT

Notes to the Financial Statements

December 31, 2019

8) Long-Term Debt

The District's note activity as of and for the year ending December 31, 2019 is as follows

Notes Payable	Balance Outstanding at 12/31/18	Additions	Retirements	Balance Outstanding at 12/31/19	Due Within One Year
ARWA, Series 2015A	\$ 364,272	\$ -	\$ 12,876	\$ 351,396	\$ 19,092
ARWA, Series 2017A	1,009,524	-	18,288	991,236	27,348
ARWA, Series 2019A	-	2,737,896	-	2,737,896	-
CRWA, Series 2003	503,825	-	27,037	476,788	42,731
CRWA, Series 2005	1,180,783	-	117,006	1,063,777	186,667
CRWA, Series 2008	892,299	-	18,219	874,080	29,136
CRWA, Series 2017	2,245,255	-	7,500	2,237,755	101,205
CRWA Note	300,000	-	18,750	281,250	18,750
	\$ 6,495,958	\$ 2,737,896	\$ 219,676	\$ 9,014,178	\$ 424,929

Notes Payable

The District signed a promissory note with CRWA in 2017. The note bears no interest and requires monthly payments of principal until maturity in 2034. In addition to the note, the District is liable for a portion of CRWA and ARWA bonds, which have been included in the long-term debt. There are no debt service requirements related to this debt.

The annual requirements to amortize all outstanding privately placed debt as of December 31, 2019, including interest payments, are as follows:

Year End December 31,	Principal Payments	Interest Payments	Total
2020	\$ 424,929	\$ 279,221	\$ 704,150
2021	519,805	276,293	796,098
2022	536,668	256,426	793,094
2023	557,513	235,333	792,846
2024	580,607	212,856	793,463
2025-2029	1,771,112	846,334	2,617,446
2030-2034	1,732,920	608,736	2,341,656
2035-2039	1,411,768	325,686	1,737,454
2040-2041	1,478,856	222,369	1,701,225
Total	\$ 9,014,178	\$ 3,263,254	\$ 12,277,432

COUNTY LINE SPECIAL UTILITY DISTRICT

Notes to the Financial Statements

December 31, 2019

9) Commitments

As of February 2016, the District has entered into an agreement that will pay Daniel Heideman a total of \$144,000 over 48 months or upon death. The term of this contract will commence the day following Heideman's last day of employment. Monthly payments will be made in the amount of \$3,000 within 15 days of the beginning of the month. Termination of this contract for any reason will result in the District paying out the remainder of the \$144,000 within 90 days.

10) Subsequent Events

Subsequent events were evaluated through May 31, 2020, which is the report date. There were no significant subsequent events.

11) Prior Period Adjustment

Prior period adjustments have been made to correct an error made in prior years. The error relates to an understatement of assets and an understatement of liabilities. The effect of the adjustment was to decrease capital assets at December 31, 2018 by \$465,891 and increase membership deposits by \$39,127. Net assets at the beginning of 2019 have been adjusted by \$505,018 for the effect of the adjustment on prior years.

COUNTY LINE SPECIAL UTILITY DISTRICT
 Required Supplementary Information
 Statement of Revenues, Expenses and Changes in Net Pension
 Budget and Actual
 For the years ended December 31, 2019 and 2018

	2019			2018		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenue:						
Water sales	2,000,000	2,926,322	926,322	2,200,000	2,450,838	250,838
Water impact fees	1,100,000	1,314,230	214,230	700,000	1,337,270	637,270
Wastewater service charges	-	1,185	1,185	-	-	-
Wastewater impact fees	-	60,063	60,063	-	-	-
Other charges	318,500	220,872	(97,628)	190,000	235,130	45,130
Total operating revenue	<u>3,418,500</u>	<u>4,522,672</u>	<u>1,104,172</u>	<u>3,090,000</u>	<u>4,023,238</u>	<u>933,238</u>
Operating expenses:						
Water purchases	1,640,050	1,120,841	519,209	1,638,860	891,285	747,575
Personnel	510,000	630,605	(120,605)	400,000	443,921	(43,921)
Repairs and maintenance	64,000	256,397	(192,397)	19,756	296,866	(277,110)
Depreciation	-	445,487	(445,487)	-	387,984	(387,984)
Professional fees - Water	60,000	118,317	(58,317)	10,500	69,271	(58,771)
Professional fees - Wastewater	-	83,237	(83,237)	-	-	-
Administrative expenses	82,200	71,997	10,203	47,650	64,240	(16,590)
Vehicles and equipment	27,500	27,090	410	17,500	20,608	(3,108)
Utilities	38,000	34,266	3,734	39,000	33,888	5,112
Insurance	68,000	62,152	5,848	48,000	46,859	1,141
Total operating expenses	<u>2,489,750</u>	<u>2,850,389</u>	<u>(360,639)</u>	<u>2,221,266</u>	<u>2,254,922</u>	<u>(33,656)</u>
Operating income (loss)	<u>928,750</u>	<u>1,672,283</u>	<u>743,533</u>	<u>868,734</u>	<u>1,768,316</u>	<u>899,582</u>
Non-operating revenues (expenses)						
Rental income	32,400	35,526	3,126	18,750	6,646	(12,104)
Interest income	70,000	93,141	23,141	4,000	78,661	74,661
Interest expense	-	(276,396)	(276,396)	-	(265,854)	(265,854)
Other expense	-	(752)	(752)	-	-	-
Total non-operating revenues (expenses)	<u>102,400</u>	<u>(148,481)</u>	<u>(250,881)</u>	<u>22,750</u>	<u>(180,547)</u>	<u>(203,297)</u>
Net income	<u>\$ 1,031,150</u>	<u>\$ 1,523,802</u>	<u>\$ 492,652</u>	<u>\$ 891,484</u>	<u>\$ 1,587,769</u>	<u>\$ 696,285</u>



williams crow mask

Deep roots. Deep resources. Deep in the heart of Texas

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, 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, 2019, statement of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated May 31, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 our audit we did not identify any deficiencies in internal control 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

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

May 31, 2020
San Antonio, Texas

Williams, Crow, Monks LLP

COUNTY LINE SPECIAL UTILITY DISTRICT

TSI – 1 Services and Rates
For the year ended December 31, 2019

1. Services Provided by the District:

- | | | |
|---|--|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water | <input checked="" type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input checked="" 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 |
- Participants in joint venture, regional system and/or wastewater service
(other than emergency interconnect)
- Other (specify):

2. Retail Rates Based on 5/8' Meter

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons over Minimum	Usage Levels
Water	\$ 36.50	-	Y	\$ 3.25	0 to 10,000
				\$ 3.50	10,001 to 15,000
				\$ 3.75	15,001 to 20,000
				\$ 4.00	20,001 and over
Wastewater	\$ 65.00	-	Y		

District employs winter averaging for wastewater usage? No

Total charges per 10,000 gallons usage: \$69.00

Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections
Unmetered		
5/8"	3,639	3,517
3/4"	-	-
1.0"	14	14
1.5"	3	3
2.0"	6	6
3.0"	-	-
4.0"	3	3
6.0"	-	-
8.0"	-	-
10.0"	-	-
Total Water	3,665	3,543
Wastewater	116	116

COUNTY LINE SPECIAL UTILITY DISTRICT

TSI – 1 Services and Rates (Continued)

For the year ended December 31, 2019

3. Total water consumption during the fiscal year:

Gallons pumped into system:	324,822,900
Gallons billed to customers:	305,057,700
Water accountability ratio:	93.92%

4. District does not levy standby fees.

5. Location of District:

County(ies) in which the District is located. Hays, Caldwell

Is the District located entirely within one county? Yes No

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

City(ies) in which the District is located. Uhland, Kyle

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely Partly Not at all

ETJ's in which District is located. Uhland, Kyle, San Marcos

Is the general membership of the Board appointed by an office outside the District?

Yes No

If yes, by whom? N/A

COUNTY LINE SPECIAL UTILITY DISTRICT

TSI – 2 Enterprise Fund Expenses
For the year ended December 31, 2019

Water purchases		1,120,841
Personnel		630,605
Operations and maintenance		256,397
Depreciation		445,487
Professional fees		
Legal		-
Legal - wastewater		38,080
Engineering		97,167
Engineering - wastewater		45,157
Surveying		13,400
Accounting and Audit		7,750
Administrative expenses		71,997
Vehicles and equipment		27,090
Utilities		34,266
Insurance		62,152
Interest		276,396
Other		<u>752</u>
Total expenses		3,127,537
Total number of persons employed by the District	Full time	<u>8</u>
	Part time	<u>-</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 by Years
- TSI-6 Changes in Long-Term Bonded Debt

See Independent Auditor's Report.

COUNTY LINE SPECIAL UTILITY DISTRICT
TSI – 7 Comparative Schedule of Revenues and Expenses
Five Years Ended
Year Ended December 31, 2019

	2015	2016	2017	2018	2019
Operating revenue:					
Water sales	1,915,932	1,930,624	2,055,655	2,450,838	2,926,322
Water impact fees	257,041	455,054	676,173	1,337,270	1,314,230
Wastewater service charges	-	-	-	-	1,185
Wastewater impact fees	-	-	-	-	60,063
Other charges	111,480	90,664	174,953	235,130	220,872
Total operating revenues	<u>2,284,453</u>	<u>2,476,342</u>	<u>2,906,781</u>	<u>4,023,238</u>	<u>4,522,672</u>
Operating expenses:					
Water purchases	794,427	811,136	1,016,352	891,285	1,120,841
Personnel	366,648	405,067	439,497	443,921	630,605
Repairs and maintenance	134,036	263,959	227,981	296,866	256,397
Depreciation	254,875	254,875	285,324	387,984	445,487
Professional fees - Water	-	43,061	47,244	69,271	118,317
Professional fees - Wastewater	-	-	-	-	83,237
Administrative expenses	4,441	11,368	8,887	64,240	71,997
Vehicles and equipment	15,522	14,077	14,392	20,608	27,090
Utilities	38,035	36,021	38,884	33,888	34,266
Insurance	15,180	14,683	18,682	46,859	62,152
Total operating expenses	<u>1,623,164</u>	<u>1,854,247</u>	<u>2,097,243</u>	<u>2,254,922</u>	<u>2,850,389</u>
Operating income (loss)	<u>661,289</u>	<u>622,095</u>	<u>809,538</u>	<u>1,768,316</u>	<u>1,672,283</u>
Non-operating revenues (expenses)					
Rental income	19,511	78,369	44,364	6,646	35,526
Interest income	4,434	16,943	35,512	78,661	93,141
Interest expense	(232,507)	(195,745)	(213,191)	(265,854)	(276,396)
Other expense	-	-	-	-	(752)
Total non-operating revenues (expenses)	<u>(208,562)</u>	<u>(100,433)</u>	<u>(133,315)</u>	<u>(180,547)</u>	<u>(148,481)</u>
Change in Net Position	<u>\$ 452,727</u>	<u>\$ 521,662</u>	<u>\$ 676,223</u>	<u>\$ 1,587,769</u>	<u>\$ 1,523,802</u>

COUNTY LINE SPECIAL UTILITY DISTRICT
 TSI – 8 Board Members, Key Personnel and Consultants
 Year Ended December 31, 2019

Complete District Mailing Address: 8870 Camino Real, Kyle, TX 78640

District Business Telephone Number: (512)398-4748

Submission Date of the most recent District Registration Form: June 2010

Limit on Fees of Office that a Director may receive during a fiscal year: \$6,000

Name	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid * 12/31/19	Expense Reimbursements 12/31/19	Title at Year End
Board of Directors:				
Chris Betz	2018	4,650	-	President
Toni Brewer	2018	800	-	Vice President
William Ilse	2017	750	-	Treasurer
Ken Dodson	2019	750	-	Director
Joe Howe	2019	150	-	Director
Rene Harbinson	2019	-	-	Director
Bob Diaz	2019	-	-	Director
Administrative Personnel:				
Daniel Heideman		93,288		Manager
Doug Schnautz		71,184		Asst Manager
Susan Browning		62,466		Office Manager
Consultants:				
Southwest Engineering, Inc.				Engineer
John Hohn				Attorney
Lloyd Gosselink Rochelle & Townsend, P.C.				Attorney
Williams, Crow, Mask LLP				Auditor