

COUNTY LINE SPECIAL UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2009

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Independent Auditors' Report

Board of Directors
County Line Special Utility District
Uhland, Texas

We have audited the accompanying basic financial statements of the proprietary funds of the County Line Special Utility District (the District) as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express opinions 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 *Government 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County Line Special Utility District as of December 31, 2009, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2010, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the County Line Special Utility District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

San Marcos, Texas
April 8, 2010



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

Board of Directors
County Line Special Utility District
Uhland, Texas

We have audited the basic financial statements of the proprietary funds of the County Line Special Utility District (District) as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended for the information of the District's management and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

April 8, 2010
San Marcos, TX

COUNTY LINE SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2009

**Schedule
Reference
Number**

Finding

NONE

COUNTY LINE SPECIAL UTILITY DISTRICT

STATUS OF PRIOR FINDINGS

For the Year Ended December 31, 2009

**Schedule
Reference
Number**

Finding

NONE

COUNTY LINE SPECIAL UTILITY DISTRICT

CORRECTIVE ACTION PLAN

For the Year Ended December 31, 2009

**Schedule
Reference
Number**

Finding

NONE

MANAGEMENT'S DISCUSSION & ANALYSIS

MANAGEMENT'S DISCUSSION & ANALYSIS

Using this Annual Report

Within this section of the County Line Special Utility District (the District) annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2009. 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. This discussion focuses on the District's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) Proprietary Funds and 2) notes to the financial statements. The District also includes in this report additional information to supplement the basic financial statements themselves.

Proprietary Funds

The Proprietary Fund is used to account for operations that (a) are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user fees; or, (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and related net income or loss is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District maintains Water Revenues as its only proprietary fund.

Financial Highlights

The District's financial position at fiscal year end 2009 showed total net assets of \$4.59 million compared to \$4.53 million at fiscal year end 2008. Of these amounts, assets that were unrestricted for meeting the District's ongoing obligations were \$3.01 million and \$2.98 million at the fiscal years ended 2009 and 2008, respectively.

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

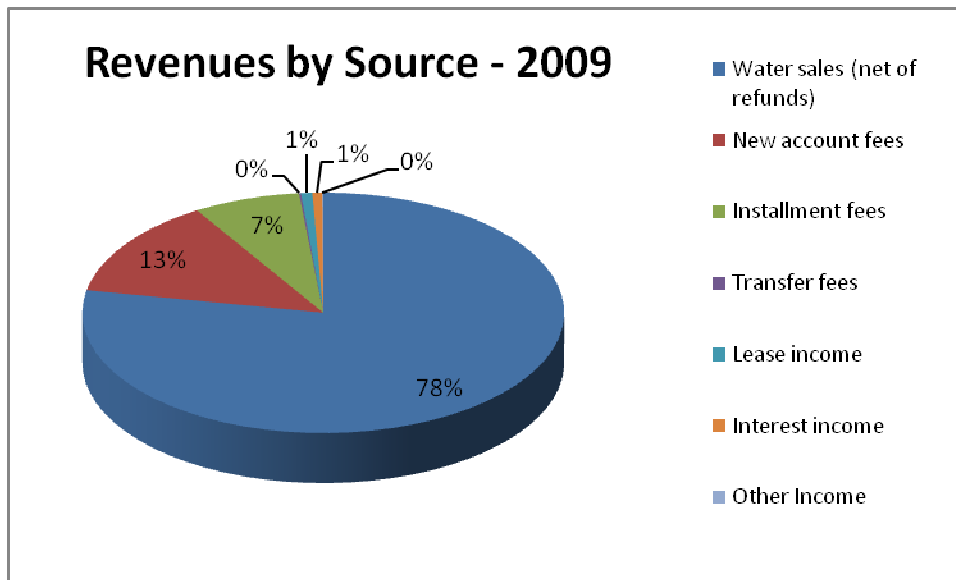
Total Net Assets	2009	2008
Current and other assets	\$ 2,013,440	\$ 2,158,860
Capital assets	4,298,118	4,175,797
Total assets	6,311,558	6,334,657
Current liabilities	583,407	650,338
Non-current liabilities outstanding	1,136,318	1,151,641
Total liabilities	1,719,725	1,801,979
Net Assets	\$ 4,591,833	\$ 4,532,678
Restricted	\$ 269,864	\$ 239,278
Temporarily Restricted	1,311,679	1,311,679
Unrestricted	3,010,290	2,981,721
Total Net Assets	\$ 4,591,833	\$ 4,532,678

Total revenues for fiscal year 2009 were \$1.82 million, an increase of \$220 thousand. Water services were the primary sources of this increase. Operations expense for 2009 was \$1.61 million, an increase of \$227 thousand. Administrations expense was \$186 thousand, an increase of \$26 thousand.

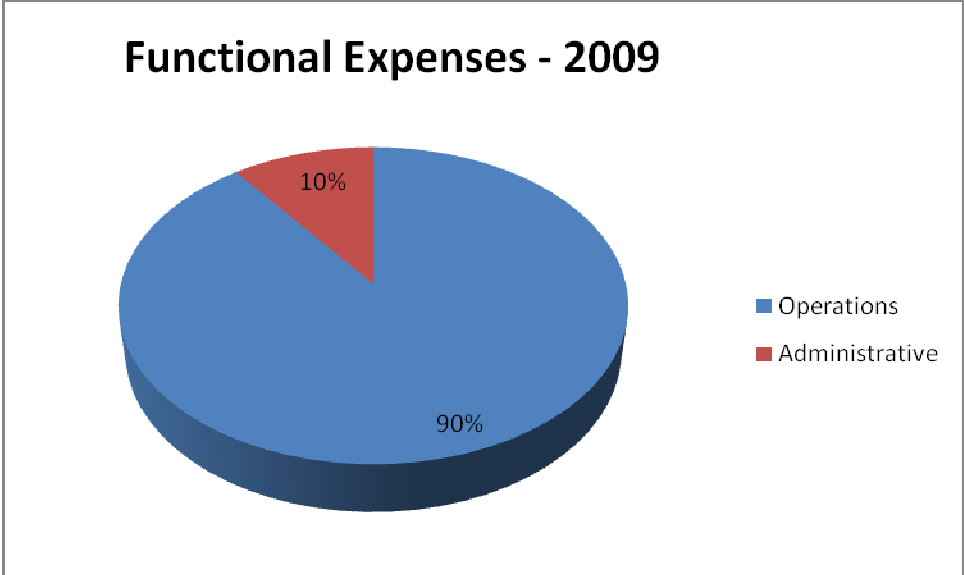
Changes in Net Assets

	2009	2008
Revenues:		
Water revenues	\$ 1,423,295	\$ 1,248,095
Other revenues	389,439	326,470
Interest earned	12,161	30,695
Total revenues	1,824,895	1,605,260
Expenses:		
Operations	1,610,317	1,383,311
Administrative	186,009	160,900
Total expenses	1,796,326	1,544,211
Net Income before Changes to Capital	28,569	61,049
Changes to Capital	30,586	162,076
Change in Net Assets	59,155	223,125
Total Net Assets - Beginning of Year	4,532,678	4,309,553
Total Net Assets - End of Year	\$ 4,591,833	\$ 4,532,678

Revenues by source in fiscal year 2009 consisted of 78% of water revenues, 13% of new account fees, and 7% of installment fees. The remainder consisted of transfer fees, lease income, and interest income.



Total operating expense for fiscal year 2009 was \$1.80 million. Of this amount, \$1.61 million, or 90% was operations expense. \$186 thousand, or 10% was administrations expense.



Notes to the Basic Financial Statements

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

FINANCIAL STATEMENTS

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
December 31, 2009

	<u>2009</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 166,215
Investments	1,051,436
Water fees receivable (net)	150,446
Due from developers	624,442
Inventory	20,901
Total Current Assets	<u>2,013,440</u>
Capital Assets	
Land and easements	101,660
SUD Conversion & legal fees (net of amortization)	152,108
Building, Plant and Equipment (net of depreciation)	4,044,350
Total Capital Assets	<u>4,298,118</u>
Total Assets	<u><u>\$ 6,311,558</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accrued benefits	\$ 5,119
Deferred revenues	536,524
Accounts payable	26,469
Current portion of long-term debt	15,295
Total Current Liabilities	<u>583,407</u>
Notes payable, net of current portion	<u>1,136,318</u>
Total Liabilities	<u>1,719,725</u>
Net Assets	
Unrestricted	3,010,290
Temporarily restricted-Future Development	1,311,679
Restricted-USDA	72,528
Restricted-Membership Fees	197,336
Total Net Assets	<u>4,591,833</u>
Total Liabilities and Net Assets	<u><u>\$ 6,311,558</u></u>

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

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
For the Year Ended December 31, 2009

	2009
Unrestricted Net Assets	
Revenue	
Water revenues	\$ 1,423,295
Other revenues	389,439
Interest earned	12,161
Total Revenue	1,824,895
Expenses	
Operations	1,610,317
Administrative	186,009
Total Expenses	1,796,326
Increase in Unrestricted Net Assets	28,569
Permanently Restricted Net Assets	
Net Assets, beginning of year	166,750
New members	30,586
Increase in Permanently Restricted Net Assets	197,336
Increase in Other Net Assets	225,905
Net Assets, beginning of year	4,532,678
Charges to net assets	(166,750)
Net Assets, end of year	\$ 4,591,833

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

COUNTY LINE SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended December 31, 2009

Operating Activities

Change in Net Assets	\$ 59,155
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and Amortization	(513)
Accounts Receivable	110,637
Inventory	1,480
Accounts Payable and Accrued Liabilities	<u>(67,702)</u>
	<u>43,902</u>
Net cash provided by operating activities	103,057

Investing Activities

Purchases of Assets	<u>(121,808)</u>
Net cash (used) by investing activities	<u>(121,808)</u>

Financing Activities

Repayments of note payable	<u>(14,552)</u>
Net cash (used) in financing activities	<u>(14,552)</u>

Net increase (decrease) in cash and cash equivalents (33,303)

Cash Balances - beginning of the year	<u>1,250,954</u>
Cash Balances - end of the year	<u>\$ <u>1,217,651</u></u>

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

SUPPLEMENTAL SCHEDULES

COUNTY LINE SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULE - ONE
COMPARATIVE SCHEDULE OF WATER AND RELATED REVENUES
For the Year Ended December 31, 2009

	<u>2009</u>
Water sales (net of refunds)	\$ 1,423,295
New account fees	241,132
Installment fees	130,936
Transfer fees	2,425
Lease income	13,840
Interest income	12,161
Other Income	1,106
EAA Water Rights	<u>0</u>
	<u><u>\$ 1,824,895</u></u>

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

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2009

	Operations	Administrative	Total
Salaries	\$ 99,793	\$ 68,546	\$ 168,340
Payroll taxes	8,324	4,889	13,213
Benefits	1,159	681	1,839
CRWA expenses	1,012,403	0	1,012,403
Cummings expenses	131,306	0	131,306
Edwards Aquafor expenses	3,431	0	3,431
Bank fees	0	6,370	6,370
Board expenses	0	0	0
Dues and fees	8,036	0	8,036
Engineering expenses	30,666	0	30,666
Insurance	21,992	10,832	32,824
Interest expense	0	57,976	57,976
Legal and accounting	0	6,507	6,507
Meeting expenses	0	87	87
Office supplies	0	10,710	10,710
Postage and freight	0	6,868	6,868
RM-distribution system-materials	72,288	0	72,288
RM-distribution system-labor	7,083	0	7,083
RM-plant-materials	870	0	870
RM-plant-labor	25,123	0	25,123
RM-plant-other	7,474	0	7,474
Stipend	4,977	0	4,977
Taxes	0	648	648
Training and development	3,578	0	3,578
Telephone and communication	0	7,443	7,443
Utilities	35,620	0	35,620
Vehicle	10,061	0	10,061
Uniforms	3,822	0	3,822
Other expenses	3,328	0	3,328
Amortization	2,380	0	2,380
Depreciation	116,603	4,453	121,056
	\$ 1,610,317	\$ 186,009	\$ 1,796,326

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

COUNTY LINE SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULE - THREE
SCHEDULE OF FUNCTIONAL EXPENSES - ACTUAL vs BUDGET
For the Year Ended December 31, 2009

	Operating		Administrative		Totals	
	Actual	Budget	Actual	Budget	Actual	Budget
Salaries	\$ 99,793	\$ 60,702	\$ 68,546	\$ 29,898	\$ 168,340	\$ 90,600
Payroll taxes	8,324	16,139	4,889	7,949	13,213	24,088
Benefits	1,159	0	681	0	1,839	0
CRWA expenses	1,012,403	1,240,315	0	0	1,012,403	1,240,315
Cummings expenses	131,306	60,672	0	0	131,306	60,672
Edwards Aquafor expenses	3,431	10,200	0	0	3,431	10,200
Bank fees	0	0	6,370	120	6,370	120
Board expenses	0	0	0	0	0	0
Dues and fees	8,036	6,000	0	0	8,036	6,000
Engineering expenses	30,666	9,000	0	0	30,666	9,000
Insurance	21,992	35,186	10,832	8,810	32,824	43,996
Interest expense	0	0	57,976	72,528	57,976	72,528
Legal and accounting	0	0	6,507	12,000	6,507	12,000
Meeting expenses	0	0	87	1,000	87	1,000
Office supplies	0	0	10,710	7,200	10,710	7,200
Postage and freight	0	0	6,868	5,400	6,868	5,400
RM-distribution system-material	72,288	66,000	0	0	72,288	66,000
RM-distribution system-labor	7,083	6,000	0	0	7,083	6,000
RM-plant-materials	870	3,000	0	0	870	3,000
RM-plant-labor	25,123	6,000	0	0	25,123	6,000
RM-plant-other	7,474	27,200	0	0	7,474	27,200
Stipend	4,977	6,950	0	0	4,977	6,950
Taxes	0	0	648	1,200	648	1,200
Training and development	3,578	1,200	0	1,200	3,578	2,400
Telephone and communication	0	0	7,443	7,800	7,443	7,800
Utilities	35,620	37,500	0	2,496	35,620	39,996
Vehicle	10,061	17,400	0	0	10,061	17,400
Uniforms	3,822	1,456	0	0	3,822	1,456
Other expenses	3,328	2,400	0	0	3,328	2,400
Amortization	2,380	0	0	0	2,380	0
Depreciation	116,603	0	4,453	0	121,056	0
	<u>\$ 1,610,317</u>	<u>\$ 1,613,320</u>	<u>\$ 186,009</u>	<u>\$ 157,601</u>	<u>\$ 1,796,326</u>	<u>\$ 1,770,921</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

County Line Special Utility District (the District) was created pursuant to the provision of Texas Water Code, Chapters 49 and 65 and Texas Administrative Code 293.11 and 293.12 to purchase, own, hold, lease and otherwise acquire sources of water supply; to build, operate and maintain facilities for the transportation of water; and to sell water and wastewater services to towns, cities, and other political subdivisions of this state, to private business entities and to individuals. County Line Water Supply Company was dissolved and all assets and liabilities and equity of that organization were transferred to the newly created County Line Special Utility District. This transfer took place on June 1, 2009, for financial reporting purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Directors (Board), a seven member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to providing water services within the jurisdiction of the County Line Special Utility District. Members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District is not included in any other governmental "Reporting Entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units presented.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the balance sheet. Fund equity is identified as net assets.

A. Estimates

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

B. Budget

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

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

C. Cash and Temporary Investments (Cash Equivalents)

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

D. Investments

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

E. Water Receivables

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

F. Due From Developers/Deferred Revenues

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

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

G. Inventory

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

H. Property, Plant and Equipment

It is the District's policy to capitalize property and equipment. The District defines property, plant and equipment as assets with an initial valued cost of \$5000 or more, and an estimated useful life in excess of one year. Property and equipment are recorded at historical cost.

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

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

I. Amortization of SUD Conversion

The District's membership voted in 2001 and approved the conversion from its current status as a Special Utility District 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 2009. Accounting principles generally accepted in the United States of America require that the District capitalize the costs associated with these assets and amortize those costs over the life of the asset or loan, and not less than 60 months, respectively, rather than expensing the entire amount in the year acquired. The expense associated with this amortization appears in the basic financial statements as "Amortization."

J. Long-Term Obligations

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

K. Restricted and Temporarily Restricted Assets

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

L. Employee Benefits

County Line Special Utility District provides vacation and sick leave for two of the salaried employees. Beginning in fiscal year 2000, employees are allowed to accumulate sick leave, and it is payable if the employee terminates. An amount has been accrued for as of December 31, 2009.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 the reported amounts of revenues and expense during the report period. Accordingly, actual results could differ from those estimates.

N. Revenues and Expenditures

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

NOTE 3 – CASH, TEMPORARY INVESTMENTS and INVESTMENTS

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

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

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

<u>Institution</u>	<u>Type</u>	<u>Term</u>	<u>Rate</u>	<u>Amounts</u>	<u>Interest Earned</u>
Cash and temporary investments:					
First Lockhart National Bank	Ck		0.15%	\$ 90,247	\$ 168
First Lockhart National Bank	MM		0.70%	75,968	504
				<u>166,215</u>	<u>672</u>
Investments:					
CDARS	CD	CLOSED		0	5,865
Logic Investments			0.19%	1,051,436	5,624
				<u>1,051,436</u>	<u>11,489</u>
				<u>\$ 1,217,651</u>	<u>\$ 12,161</u>

NOTE 4 – RESTRICTED and TEMPORARILY RESTRICTED ASSETS

As of December 31, 2009, the District held restricted assets in the amount of \$1,581,543 designated for future development and memberships. The District also had unrestricted assets in the amount of \$3,011,531.

	<u>Balance at 12/31/2008</u>	<u>Reclass</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2009</u>
Restricted:					
Membership	\$ 166,750	\$	\$ 30,586		\$ 197,336
USDA	72,528				72,528
Future development	<u>1,311,679</u>				<u>1,311,679</u>
Total	<u>1,550,957</u>	<u>0</u>	<u>30,586</u>	<u>0</u>	<u>1,581,543</u>
Unrestricted					
	<u>2,981,721</u>		<u>28,569</u>		<u>3,010,290</u>
Total net assets	<u>\$ 4,532,678</u>	<u>\$ 0</u>	<u>\$ 59,155</u>	<u>\$ 0</u>	<u>\$ 4,591,833</u>

NOTE 5 – RECEIVABLES

Accounts receivable from members represents unpaid water usage. At December 31, 2009 the amount was \$150,446.

Summary of Water Receivables and Usage

<u>Balance at 12/31/2008</u>	<u>Water Billing in 2009</u>	<u>Payments received in 2009</u>	<u>Balance at 12/31/2009</u>
\$159,721	\$1,427,215	\$1,436,491	\$150,446

Water purchased	12,966,000	Gallons
Water sold	11,252,200	Gallons
Number of meters at year end	1887	

NOTE 6 –PROPERTY and EQUIPMENT

A summary of changes in capital assets for the year ended December 31, 2009, follows:

	Balance @ 12-31-2008	Increases	Decreases	Balance @ 12-31-2009
Capital assets not being depreciated				
Land and easements	\$ 101,660	\$	\$	\$ 101,660
Water rights	708,950			708,950
Total assets not being depreciated	<u>810,610</u>			<u>810,610</u>
Capital assets being depreciated/amortized				
Sud conversion & Legal Fees	33,229	123,953		157,182
System and equipment	4,315,703	206,113		4,521,816
Building and improvements	116,322			116,322
Total capital assets being depreciated/amortized	<u>4,465,254</u>	<u>330,066</u>		<u>4,795,320</u>
Less accumulated depreciation/amortization	<u>1,184,376</u>	<u>123,436</u>		<u>1,307,812</u>
Total assets being depreciated/amortized, net	<u>3,280,878</u>	<u>206,630</u>		<u>3,487,508</u>
Total capital assets	<u>\$ 4,091,489</u>	<u>\$ 206,630</u>	<u>\$</u>	<u>\$ 4,298,118</u>

Depreciation expense for the year was \$121,056. Of this amount, \$116,603 was allocated to operating expenses and \$4,453 was allocated to administrative expenses. Amortization expense for the year was \$2,380.

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

	2009
Land and easements	\$ 101,660
Distribution system	4,501,483
Building	106,135
Improvements	10,187
SUD conversion & Legal fees	157,182
Rights	708,950
Equipment - vehicles	14,694
Equipment-field	5,640
	<u>5,605,930</u>
Less: accumulated deprec./amort.	<u>(1,307,812)</u>
	<u>\$ 4,298,118</u>

NOTE 7 – LONG-TERM DEBT

The District issued long-term debt instruments in order to acquire and/or construct major capital facilities for the water system. During the year ended December 31, 2009, the following changes occurred in long-term liabilities:

USDA Case #50-005-0742235829, loan number 91-01 dated May 30, 2002, original loan \$1,241,000, interest rate 5.0% per year with monthly payments of \$6,044.00, including interest, final payment due March 9, 2041.	
	\$ 1,151,613
Less: current principal	<u>(15,295)</u>
Long-term debt	<u>\$ 1,136,318</u>

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

Years ending December 31:	Principal	Interest	Total
2010.	15,295	57,233	72,528
2011.	16,077	56,451	72,528
2012.	16,900	55,628	72,528
2013	17,764	54,764	72,528
2014.	18,673	53,855	72,528
Remainder	<u>1,066,904</u>	<u>866,343</u>	<u>1,933,247</u>
	<u>\$ 1,151,613</u>	<u>\$ 1,144,274</u>	<u>\$ 2,295,887</u>

The total amount of interest expensed and paid during the year was \$57,976.

NOTE 8 – RISK MANAGEMENT

A. General Liability

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

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

<u>Type of Policy</u>	<u>Coverage Period</u>		<u>Coverage Amount</u>
	<u>Beginning</u>	<u>Ending</u>	
Workers compensation	12-2009	12-2010	STATUTORY
Vehicle	12-2009	12-2010	\$1,000,000
Umbrella	12-2009	12-2010	\$5,800,000
Directors	12-2009	12-2010	\$4,000,000
Employee	12-2009	12-2010	\$100,000
General liability	12-2009	12-2010	\$2,000,000

B. Workers' Compensation

The District purchases workers' compensation insurance annually on the open market. Premiums are based on the estimated District payroll by risk factor and rates. The premiums are adjusted by the District's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for in the financial statements.

NOTE 9 – OFFICERS, DIRECTORS AND KEY PERSONNEL

<u>Name</u>	<u>Position</u>	<u>Term Expires, March</u>
Board of Directors:		
Curtis Wells	President	2010
Randy Robertson	V-President	2012
John Anderson	Secretary	2010
William Ilse	Director	2011
Ollie Maier	Director	2009
Jim Roach	Director	2011
Julio Deleon	Director	2010
Corporate Staff:		
Daniel Heideman	Manager	
Susan Whisenant	Office Mgr.	



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MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of the County Line Special Utility District for the year ended December 31, 2009, we considered the Corporation's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

However, during our audit, we became aware of an opportunity for strengthening internal controls and operating efficiency. This letter does not affect our report dated February 28, 2009, on the financial statements of the County Line Special Utility District.

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

Organizational Structure

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

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

Cook and Associates, PLLC
San Marcos, Texas
April 8, 2010