

COUNTY LINE SPECIAL UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2010

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Cook, Gola and Company, PLLC
Certified Public Accountants
3305 Northland Drive, Ste. 403
Austin, Texas 78731

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, 2010, 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, 2010, 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 March 1, 2011, 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.

Austin, Texas
March 1, 2011



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Certified Public Accountants
3305 Northland Drive, Ste. 403
Austin, Texas 78731

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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 1, 2011. 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.

March 1, 2011
Austin, Texas

COUNTY LINE SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2010

Schedule Reference Number	Finding
	NONE

COUNTY LINE SPECIAL UTILITY DISTRICT

STATUS OF PRIOR FINDINGS

For the Year Ended December 31, 2010

Schedule

Reference

Number

Finding

NONE

COUNTY LINE SPECIAL UTILITY DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2010

**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, 2010. 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 2010 showed total net assets of \$4.49 million compared to \$4.59 million at fiscal year end 2009. Of these amounts, assets that were unrestricted for meeting the District's ongoing obligations were \$2.78 million and \$3.01 million at the fiscal years ended 2010 and 2009, respectively.

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

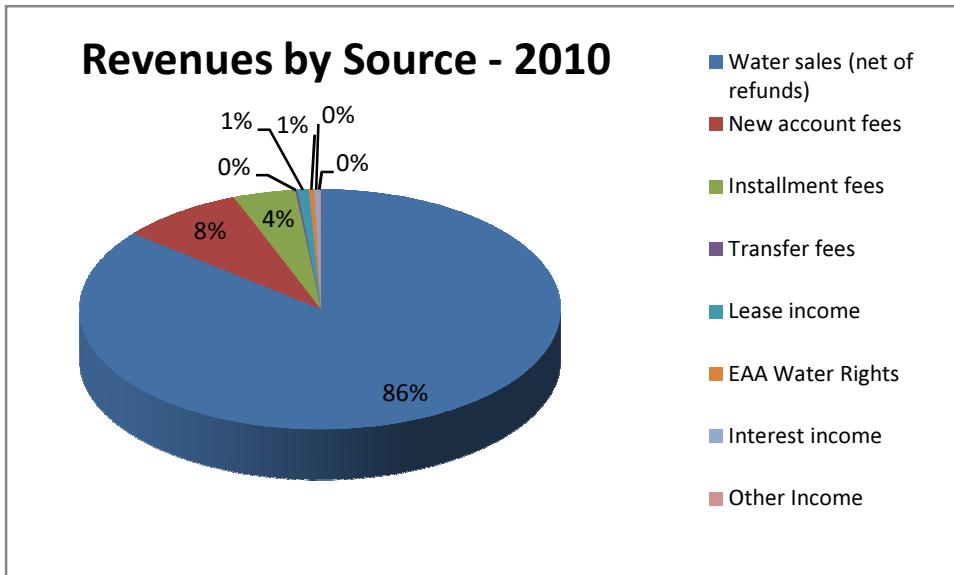
Total Net Assets	2010	2009
Current and other assets	\$ 2,059,500	\$ 2,013,440
Capital assets	8,168,795	4,298,118
Total assets	10,228,295	6,311,558
Current liabilities	630,010	583,407
Non-current liabilities outstanding	5,109,114	1,136,318
Total liabilities	5,739,124	1,719,725
Net Assets	\$ 4,489,171	\$ 4,591,833
Restricted	\$ 397,411	\$ 269,864
Temporarily Restricted	0	1,311,679
Unrestricted	4,091,760	3,010,290
Total Net Assets	\$ 4,489,171	\$ 4,591,833

Total revenues for fiscal year 2010 were \$1.73 million, a decrease of \$90 thousand. Lower new account fees and installment fees were the primary sources of this decrease. Operations expense for 2010 was \$1.58 million, a decrease of \$29 thousand. Administrations expense was \$125 thousand, a decrease of \$61 thousand.

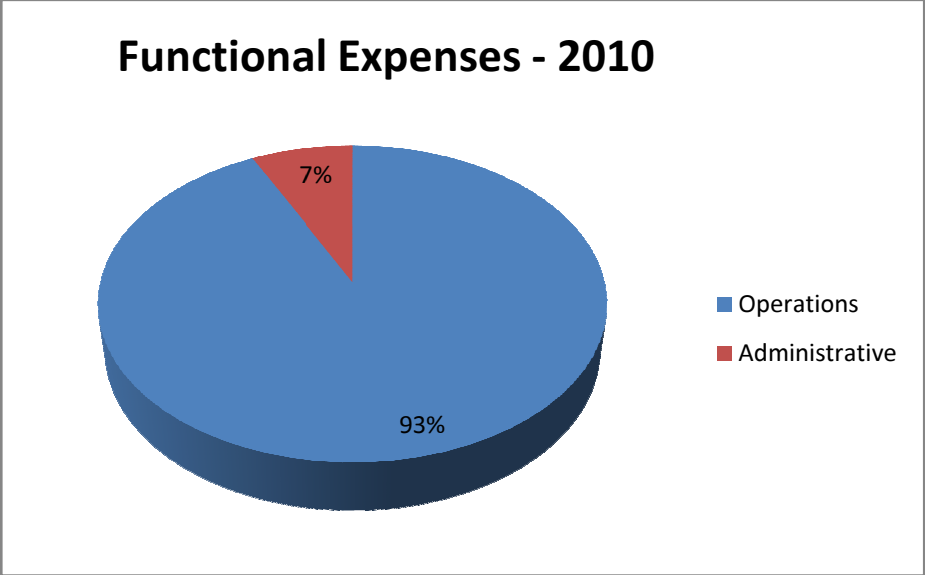
Changes in Net Assets

	<u>2010</u>	<u>2009</u>
Revenues:		
Water revenues	\$ 1,488,671	\$ 1,423,295
Other revenues	241,165	389,439
Interest earned	4,537	12,161
Total revenues	<u>1,734,373</u>	<u>1,824,895</u>
Expenses:		
Operations	1,581,460	1,610,317
Administrative	125,330	186,009
Total expenses	<u>1,706,790</u>	<u>1,796,326</u>
Net Income before Changes to Capital	27,583	28,569
Prior Period Adjustments	(167,840)	
Changes to Capital	37,595	30,586
Change in Net Assets	(102,662)	59,155
Total Net Assets - Beginning of Year	4,591,833	4,532,678
Total Net Assets - End of Year	<u>\$ 4,489,171</u>	<u>\$ 4,591,833</u>

Revenues by source in fiscal year 2010 consisted of 86% of water revenues, 8% of new account fees, and 4% of installment fees.



Total expense for fiscal year 2010 was \$1.71 million. Of this amount, \$1.58 million, or 93% was operations expense. \$125 thousand, or 7% 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, 2010

	<u>2010</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 64,530
Investments	1,256,747
Water fees receivable (net)	175,835
Due from developers	538,702
Inventory	14,775
Prepaid assets	8,911
Total Current Assets	<u>2,059,500</u>
Capital Assets	
Land and easements	101,660
Water rights	1,874,390
SUD Conversion & legal fees (net of amortization)	148,178
Building, Plant and Equipment (net of depreciation)	6,044,567
Total Capital Assets	<u>8,168,795</u>
Total Assets	<u>\$ 10,228,295</u>
Liabilities and Net Assets	
Current Liabilities	
Accrued benefits	\$ 5,942
Accounts payable	9,338
Deferred revenues	452,250
Current portion of long-term debt	162,480
Total Current Liabilities	<u>630,010</u>
Notes payable, net of current portion	<u>5,109,114</u>
Total Liabilities	<u>5,739,124</u>
Net Assets	
Unrestricted	4,091,760
Restricted-Bonds	162,480
Restricted-Membership Fees	234,931
Total Net Assets	<u>4,489,171</u>
Total Liabilities and Net Assets	<u>\$ 10,228,295</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, 2010

	2010
Unrestricted Net Assets	
Revenue	
Water revenues	\$ 1,488,671
Other revenues	241,165
Interest earned	4,537
Total Revenue	1,734,373
Expenses	
Operations	1,581,460
Administrative	125,330
Total Expenses	1,706,790
Increase in Unrestricted Net Assets	27,583
Permanently Restricted Net Assets	
Net Assets, beginning of year	197,336
New members	37,595
Increase in Permanently Restricted Net Assets	234,931
Increase in Other Net Assets	262,514
Net Assets, beginning of year	4,591,833
Prior Period Adjustments	(167,840)
Charges to net assets	(197,336)
Net Assets, end of year	\$ 4,489,171

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, 2010

Operating Activities	
Change in Net Assets	\$ (102,662)
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and Amortization	(234,169)
Accounts Receivable	60,351
Inventory	6,126
Other Current Assets	(8,911)
Accounts Payable and Accrued Liabilities	<u>(100,582)</u>
	<u>(277,185)</u>
Net cash provided by operating activities	(379,847)
Investing Activities	
Increase in Assets Recorded	<u>(3,636,509)</u>
Net cash (used) by investing activities	<u>(3,636,509)</u>
Financing Activities	
Increase in Notes Payable	<u>4,119,982</u>
Net cash (used) in financing activities	<u>4,119,982</u>
Net increase (decrease) in cash and cash equivalents	103,626
Cash Balances - beginning of the year	<u>1,217,651</u>
Cash Balances - end of the year	\$ <u><u>1,321,277</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, 2010

	<u>2010</u>
Water sales (net of refunds)	\$ 1,488,670
New account fees	144,296
Installment fees	72,160
Transfer fees	2,588
Lease income	13,030
EAA Water Rights	6,485
Interest income	4,537
Other Income	2,607
	<u>\$ 1,734,373</u>

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

COUNTY LINE SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULE - TWO
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2010

	<u>Operations</u>	<u>Administrative</u>	<u>Total</u>
Salaries	\$ 102,422	\$ 60,152	\$ 162,574
Payroll taxes	8,987	5,278	14,264
Benefits	7,497	4,403	11,899
CRWA expenses	759,576	0	759,576
Board expenses	0	1,617	1,617
Dues and fees	14,434	0	14,434
Engineering expenses	28,320	0	28,320
Insurance	16,461	9,667	26,128
Interest expense	184,454	0	184,454
Legal and accounting	0	5,250	5,250
Meeting expenses	0	868	868
Office supplies	0	20,248	20,248
Postage and freight	0	7,231	7,231
RM-distribution system-materials	84,738	0	84,738
RM-distribution system-labor	20,838	0	20,838
RM-plant-materials	278	0	278
RM-plant-labor	32,771	0	32,771
RM-plant-other	4,639	0	4,639
Stipend	7,690	0	7,690
Taxes	0	312	312
Training and development	3,478	0	3,478
Telephone and communication	0	5,849	5,849
Utilities	40,389	0	40,389
Vehicle	14,091	0	14,091
Uniforms	3,031	0	3,031
Other expenses	17,654	0	17,654
Amortization	3,930	0	3,930
Depreciation	225,786	4,453	230,239
	<u>\$ 1,581,460</u>	<u>\$ 125,330</u>	<u>\$ 1,706,790</u>

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

COUNTY LINE SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULE - THREE
SCHEDULE OF FUNCTIONAL EXPENSES - ACTUAL vs BUDGET
For the Year Ended December 31, 2010

	Operating		Administrative		Totals	
	Actual	Budget	Actual	Budget	Actual	Budget
Salaries	\$ 102,422	\$ 110,300	\$ 60,152	\$ 64,780	\$ 162,574	\$ 175,080
Payroll taxes	8,987	22,051	5,278	12,950	14,264	35,001
Benefits	7,497	0	4,403	0	11,899	0
CRWA expenses	759,576	1,024,270	0	0	759,576	1,024,270
Board expenses	0	2,000	1,617	0	1,617	2,000
Dues and fees	14,434	7,000	0	0	14,434	7,000
Engineering expenses	28,320	20,000	0	0	28,320	20,000
Insurance	16,461	28,004	9,667	16,447	26,128	44,450
Interest expense	184,454	72,528	0	0	184,454	72,528
Legal and accounting	0	0	5,250	24,000	5,250	24,000
Meeting expenses	0	0	868	1,500	868	1,500
Office supplies	0	0	20,248	9,900	20,248	9,900
Postage and freight	0	0	7,231	7,200	7,231	7,200
RM-distribution system-materi	84,738	72,000	0	0	84,738	72,000
RM-distribution system-labor	20,838	24,000	0	0	20,838	24,000
RM-plant-materials	278	1,800	0	0	278	1,800
RM-plant-labor	32,771	27,000	0	0	32,771	27,000
RM-plant-other	4,639	31,900	0	0	4,639	31,900
Stipend	7,690	7,000	0	0	7,690	7,000
Taxes	0	0	312	0	312	0
Training and development	3,478	3,500	0	0	3,478	3,500
Telephone and communication	0	0	5,849	6,860	5,849	6,860
Utilities	40,389	38,400	0	0	40,389	38,400
Vehicle	14,091	13,500	0	0	14,091	13,500
Uniforms	3,031	4,200	0	0	3,031	4,200
Other expenses	17,654	4,700	0	0	17,654	4,700
Amortization	3,930	0	0	0	3,930	0
Depreciation	225,786	0	4,453	0	230,239	0
	<u>\$ 1,581,460</u>	<u>\$ 1,514,153</u>	<u>\$ 125,330</u>	<u>\$ 143,637</u>	<u>\$ 1,706,790</u>	<u>\$ 1,657,789</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

County Line Special Utility District (the District) was created pursuant to the provision of Texas Water Code, Chapters 49 and 65 and Texas Administrative Code 293.11 and 293.12 to purchase, own, hold, lease and otherwise acquire sources of water supply; to build, operate and maintain facilities for the transportation of water; and to sell water and wastewater services to towns, cities, and other political subdivisions of this state, to private business entities and to individuals. County Line Water Supply Company was dissolved and all assets and liabilities and equity of that organization were transferred to the newly created County Line Special Utility District. This transfer took place on June 1, 2010, for financial reporting purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Directors (Board), a seven member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to providing water services within the jurisdiction of the County Line Special Utility District. Members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The 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 \$1000 or more, and an estimated useful life in excess of one year. Property and equipment are recorded at historical cost.

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

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

I. Amortization of SUD Conversion

The District's membership voted in 2001 and approved the conversion from its 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, 2010.

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.

O. Prior Period Adjustments

The District acquired ownership in a water treatment plant and rights to water in prior years. These assets and their related long-term liabilities were not reported on the District's books until 2010. Due to this, a Prior Period Adjustment of \$167,840 was required. As of December 31, 2010, these assets and their related liabilities are accurately recorded and are classified under Capital Assets and Notes Payable, respectively.

NOTE 3 – CASH, TEMPORARY INVESTMENTS and INVESTMENTS

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

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

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

<u>Institution</u>	<u>Type</u>	<u>Rate</u>	<u>Amounts</u>	<u>Interest Earned</u>
Cash and temporary investments:				
First Lockhart National Bank	Ck	0.15%	\$ 64,386	\$ 652
First Lockhart National Bank	MM	0.60%	144	575
			<u>64,530</u>	<u>1,227</u>
Investments:				
Ozona	CD	0.95%	100,000	0
First Lockhart National Bank	CD	1.45%	82,777	777
First Lockhart National Bank	CD	1.65%	101,232	1,232
Logic Investments		0.21%	972,738	1,301
			<u>1,256,747</u>	<u>3,310</u>
			<u>\$ 1,321,277</u>	<u>\$ 4,537</u>

NOTE 4 – RESTRICTED and TEMPORARILY RESTRICTED ASSETS

As of December 31, 2010, the District held restricted assets in the amount of \$1,709,090 designated for membership, bond payments, and future development. The District also had unrestricted assets in the amount of \$2,780,081.

	<u>Balance at 12/31/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclass</u>	<u>Balance at 12/31/2010</u>
Restricted:					
Membership	\$ 197,336	\$ 37,595		\$	\$ 234,931
Bonds	72,528			89,952	162,480
Future development	<u>1,311,679</u>			<u>(1,311,679)</u>	<u>0</u>
Total	1,581,543	37,595	0	(1,221,727)	397,411
Unrestricted					
Unrestricted	3,010,290	27,583		1,053,887	4,091,760
Prior Period Adjustment	<u>0</u>	<u>(167,840)</u>		<u>167,840</u>	<u>0</u>
Total net assets	<u>\$ 4,591,833</u>	<u>\$ (102,662)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,489,171</u>

NOTE 5 – RECEIVABLES

Accounts receivable from members represents unpaid water usage. At December 31, 2010 the amount was \$175,835.

Summary of Water Receivables and Usage

Balance at 12/31/2009	Water Billing in 2010	Payments received in 2010	Balance at 12/31/2010
\$150,446	\$1,493,036	\$1,467,648	\$175,835

Water purchased	200,971,000	Gallons
Water sold	199,823,000	Gallons
Number of meters at year end	1898	

NOTE 6 –PROPERTY and EQUIPMENT

A summary of changes in capital assets for the year ended December 31, 2010, follows:

	Balance @ 12-31-2009	Increases	Decreases	Balance @ 12-31-2010
Capital assets not being depreciated				
Land and easements	\$ 101,660	\$	\$	\$ 101,660
Water rights	1,874,390			1,874,390
Total assets not being depreciated	1,976,050			1,976,050
Capital assets being depreciated/amortized				
Sud conversion & Legal Fees	157,182			157,182
System and equipment	4,507,122			4,507,122
Water plants	3,528,681			3,528,681
Building and improvements	116,322			116,322
Vehicles	14,694			14,694
Total capital assets being depreciated/amortized	8,324,001			8,324,001
				0
Less accumulated depreciation/amortization	(1,897,087)	(234,169)		(2,131,256)
Total assets being depreciated/amortized, net	6,426,914	(234,169)		6,192,745
				0
Total capital assets	\$ 8,402,964	\$ (234,169)	\$	\$ 8,168,795

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

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

	2010
Land and easements	\$ 101,660
Water rights	1,874,390
Distribution system	4,501,482
Water treatment plants	3,528,681
Building	106,135
Improvements	10,187
SUD conversion & Legal fees	157,182
Equipment - vehicles	14,694
Equipment-field	5,640
	<u>10,300,051</u>
Less: accumulated deprec./amort.	<u>(2,131,256)</u>
	<u>\$ 8,168,795</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, 2010, 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.

	\$ 1,136,316
Less: current principal	<u>(16,078)</u>
Long-term debt	<u>\$ 1,120,238</u>

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

	Principal	Interest	Total
Years ending December 31:			
2011	16,078	56,451	72,529
2012	16,900	55,628	72,528
2013	17,764	54,764	72,528
2014	18,673	53,855	72,528
2015	19,629	52,899	72,528
Remainder	<u>1,047,272</u>	<u>868,675</u>	<u>1,915,947</u>
	<u>\$ 1,136,316</u>	<u>\$ 1,142,272</u>	<u>\$ 2,278,588</u>

Hays Caldwell WTP Series 2003 Bonds, dated May 2003, original loan \$899,600, variable interest rate, final payment due August 1, 2028

	\$ 766,909
Less: current principal	<u>(24,739)</u>
Long-term debt	<u><u>\$ 742,170</u></u>

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

	Principal	Interest	Total
Years ending December 31:			
2011	24,739	21,652	46,391
2012	26,988	21,060	48,048
2013	29,237	20,400	49,637
2014	29,237	19,656	48,893
2015	31,486	18,893	50,379
Remainder	<u>625,222</u>	<u>141,132</u>	<u>766,354</u>
	<u><u>\$ 766,909</u></u>	<u><u>\$ 242,793</u></u>	<u><u>\$ 1,009,702</u></u>

Hays Caldwell WTP Series 2005 Bonds, dated October 2005, original loan \$2,629,081, 6.44% interest rate, final payment due August 1, 2024

	\$ 2,293,980
Less: current principal	<u>(103,454)</u>
Long-term debt	<u><u>\$ 2,190,526</u></u>

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

	Principal	Interest	Total
Years ending December 31:			
2011	103,454	73,866	177,320
2012	110,201	70,535	180,736
2013	116,948	66,986	183,934
2014	125,944	63,221	189,165
2015	134,940	59,165	194,105
Remainder	<u>1,702,493</u>	<u>266,384</u>	<u>1,968,877</u>
	<u><u>\$ 2,293,980</u></u>	<u><u>\$ 600,157</u></u>	<u><u>\$ 2,894,137</u></u>

San Marcos RTP Series 2008 Bonds, dated February 2008, original loan \$1,165,440, 5.14045% interest rate, final payment due August 1, 2038

	\$ 1,074,390
Less: current principal	<u>(18,210)</u>
Long-term debt	<u><u>\$ 1,056,180</u></u>

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

Years ending December 31:	Principal	Interest	Total
2011	18,210	27,614	45,824
2012	18,210	27,146	45,356
2013	20,031	26,678	46,709
2014	21,852	26,163	48,015
2015	21,852	25,602	47,454
Remainder	<u>974,235</u>	<u>354,258</u>	<u>1,328,493</u>
	<u><u>\$ 1,074,390</u></u>	<u><u>\$ 487,461</u></u>	<u><u>\$ 1,561,851</u></u>

The total amount of interest expensed and paid during the year was \$184,454.

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	\$4,300,000
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, May</u>
Board of Directors:		
Curtis Wells	President	2013
Randy Robertson	V-President	2012
John Anderson	Secretary	2013
William Ilse	Director	2011
Ollie Maier	Director	2012
Jim Roach	Director	2011
Perry Towles	Director	2013

Corporate Staff:

Daniel Heideman	Manager
Susan Whisenant	Office Mgr.



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MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of the County Line Special Utility District for the year ended December 31, 2010, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of an opportunity for strengthening internal controls and operating efficiency, as discussed below in Organizational Structure. This letter does not affect our report dated March 1, 2011, on the financial statements of the County Line Special Utility District.

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

Organizational Structure

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

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

Cook, Gola, and Company, PLLC
Austin, Texas
March 1, 2011