

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2016

**CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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STATE OF TEXAS }
COUNTY OF HAYS }

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

(Typed Name and Title of District Representative)

(SEAL)

(Signature of Notary)

1

Rick C. Reed
& COMPANY, PLLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Crystal Clear Special Utility District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, which are the proprietary funds of the Crystal Clear Special Utility District, as of and for the nine months ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Crystal Clear Special Utility 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 *Government Auditing Standards*, issued by the Comptroller 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 from 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.

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, which are the proprietary funds of the Crystal Clear Special Utility District as of September 30, 2016 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Crystal Clear Special Utility District's basic financial statements. The supplemental schedules required by the Texas Commission on Environmental Quality, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2017, on our consideration of the Crystal Clear 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 Crystal Clear Special Utility District's internal control over financial reporting and compliance.

Rick C. Reed & Company PLLC

Rick C. Reed & Company, PLLC
San Marcos, Texas
January 23, 2017

**CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Using this Annual Report

Within this section of the Crystal Clear Special Utility District's ("District") annual financial report, management provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2016. Financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

OVERVIEW OF THE DISTRICT

The District was created pursuant to TEX. S.B. 1116, 83rd Leg., R.S. (2013), further codified in TEX. SPEC. DIST. LOC. LAWS CODE Chapter 7206, enacted under the authority granted to the Texas Legislature in TEX. CONST. art. XVI, § 59. The District exists for the purpose of furnishing potable water and wastewater utility service. The District was organized on January 18, 2013, following the confirmation election by the voters within the geographic area as specified by Senate Bill 1116. The District is managed by the Board of Directors, the members of which are elected by qualified voters residing within the District's boundaries.

Financial Highlights

- Total assets increased \$2,426,046 to \$24,328,777
- Total liabilities decreased \$68,577 to \$10,044,052, primarily due to executing the \$3,200,000.00 USDA Bond Issue/loan to pay off the CoBank Interim financing for approved system improvements construction projects.
- Total net position increased \$2,505,662 to \$14,295,764.
- Total operating revenues decreased \$12,952 to \$5,169,018 due to a historically rainy year and a nine month fiscal cycle.
- Total operating expenses decreased \$1,162,814 to \$3,857,456 due to a historically rainy year and a nine month fiscal cycle.

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 are comprised of three components: (1) The Statement of Net Position which includes all of the District's assets and liabilities, and provides information about the nature and amounts of investment in resources and obligations to creditors; (2) The Statement of Revenues, Expenditures and Changes in Net Position shows the business-type activities of the District and provides information regarding income and expense (both operating and non-operating) that affect the net position; and (3) 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 financing activities.

**CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Enterprise Funds

Enterprise funds (Proprietary fund) are used to report the same functions present as business-type activities. Crystal Clear Special Utility District has a single fund, an enterprise fund, which is a proprietary fund type.

Notes to the Financial Statements

Integral to the financial statements are the Notes to the 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 clearer picture of the District's financial position and insight into the results of its operations. The notes comply with the standardized reporting requirements for districts by the TCEQ and are in conformity with GAAP.

Statement of Net Position

The statement of net position for a district is similar to the balance sheet presented as a basic financial statement for private-sector companies. The statement of net position includes all of the District's assets and liabilities. A major function of the statement of net position is to measure the ability of a District to meet its current and long-term obligations. The biggest difference between the statement of net position and the private-sector balance sheet is in the reporting of the difference between the total assets and total liabilities. In the balance sheet of a private-sector business, the difference between the total assets and total liabilities is a measure of the value of the business that the owner would realize if they sell their share of the business.

Instead of measuring the "owners' equity," state and local governments report the net value of "net position" in these major categories:

- Restricted
- Unrestricted
- Invested in Capital Assets, Net of Related Debt

Supplementary Information

In addition to the basic financial statements and accompanying notes, this section also presents certain required supplemental information by TCEQ in the Supplemental Schedule section which may be beneficial to the reader.

FINANCIAL ANALYSIS

The following condensed Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position shows the total net position and changes in net position in 2016.

Statement of Net Position

Current and other assets	\$ 3,504,808
Capital assets	<u>20,823,969</u>
Total assets	<u><u>24,328,777</u></u>
 Deferred outflows of resources	 11,039
 Current liabilities	 1,261,455
Non-current liabilities	<u>8,782,597</u>
Total liabilities	<u><u>10,044,052</u></u>
 Investment in capital asset, net	 11,764,551
Restricted	39,937
Unrestricted	<u>2,491,276</u>
Total Net Position	<u><u>\$ 14,295,764</u></u>

Statement of Revenues, Expenses and Changes in Net Position

Revenues:	
Operating revenue	\$ 5,169,018
Non-operating revenue	<u>3,841</u>
Total revenues	<u><u>5,172,859</u></u>
Expenses:	
Operating	3,857,456
Non-operating	<u>245,590</u>
Total expenses	<u><u>4,103,046</u></u>
 Capital Contributions	 1,435,849
 Change in Net Position	 2,505,662
 Total Net Position - Beginning of Year	 <u>11,790,102</u>
 Total Net Position - End of Year	 <u><u>\$ 14,295,764</u></u>

**CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Revenues by source in fiscal year 2016 consisted of 92% of water revenues, 8% of customer charges and fees and other income.

Capital Assets and Debt

At September 30, 2016, the District had \$20,823,970 in total capital assets, net of depreciation. Additional information on the District's capital assets can be found in Note 4. At the same time the District had outstanding debt of \$ 9,059,418. Of this amount, \$ 276,821 is considered to be current. Additional information on the District's outstanding debt may be found in Note 5.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

There are currently no known or anticipated economic factors affecting next year's budget. However, the District is seeking funding for its Capital Improvements Plan to deal with regulatory compliance and aging infrastructure. Timing and financing options could affect this year's budget.

CONTACTING THE DISTRICT'S MANAGEMENT

This report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for funds it receives. Questions and requests may be made by contacting the District's office at 2370 FM 1979, San Marcos, Texas 78666 or by phone at (830) 372-1031 during normal business hours.

BASIC FINANCIAL STATEMENTS

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	<u>Proprietary Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,165,463
Restricted cash and cash equivalents	561,570
Receivables (net)	568,853
Inventory	136,686
Prepaid items	<u>37,412</u>
Total current assets	<u>3,469,984</u>
Noncurrent assets:	
Capital assets:	
Non-depreciable	6,191,704
Depreciable (net of accumulated depreciation)	14,632,265
Other assets	<u>34,824</u>
Total noncurrent assets	<u>20,858,793</u>
Total Assets	<u><u>\$ 24,328,777</u></u>
Deferred outflows of Resources:	
Pension contributions subsequent to the measurement date	\$ 11,039
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 294,839
Accrued expenses	40,237
Customer deposits payable	561,570
Current portion of notes payable	236,821
Current portion of bonds payable	40,000
Accrued interest payable	<u>87,988</u>
Total current liabilities	<u>1,261,455</u>
Noncurrent liabilities:	
Notes payable	5,622,597
Bonds payable	<u>3,160,000</u>
Total noncurrent liabilities	<u>8,782,597</u>
Total Liabilities	<u><u>\$ 10,044,052</u></u>
NET POSITION	
Net investment in capital assets	\$ 11,764,551
Restricted	39,937
Unrestricted	<u>2,491,276</u>
Total net position	<u><u>\$ 14,295,764</u></u>

The accompanying notes are an integral part of this financial statement.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Proprietary Fund
OPERATING REVENUES	
Water/Waste Water Sales	\$ 4,135,598
Customer charges/fees	1,009,823
Miscellaneous income	<u>23,597</u>
Total operating revenues	<u>5,169,018</u>
OPERATING EXPENSES	
Operating and Maintenance:	
Personnel costs and benefits	608,675
Water distribution system	1,225,445
Other operating costs	841,314
Professional and legal fees	618,358
Insurance	128,981
Depreciation and amortization	<u>434,683</u>
Total operating expenses	<u>3,857,456</u>
Operating income (loss)	<u>1,311,562</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	3,841
Interest expense	<u>(245,590)</u>
Total non-operating revenues (expenses)	<u>(241,749)</u>
CAPITAL CONTRIBUTIONS	
Developer Contributions	1,435,849
Change in net position	2,505,662
Net position - beginning of year	<u>11,790,102</u>
Net position - end of year	<u>\$ 14,295,764</u>

The accompanying notes are an integral part of this financial statement.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 5,036,104
Payments to suppliers and service providers	(2,896,290)
Payments to employees for salaries and benefits	(600,185)
Net cash provided by (used for) operating activities	<u>1,539,629</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(1,333,476)
Bond Proceeds	3,200,000
Principal paid on notes payable	(3,370,654)
Interest paid on notes payable	(219,440)
Net cash provided by (used for) capital and related financing activities	<u>(1,723,570)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	3,841
Payments received on other receivables	<u>246,680</u>
Net cash provided by (used for) investing activities	<u>250,521</u>

NET CHANGE IN CASH AND EQUIVALENTS 66,580

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 2,660,453

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 2,727,033

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ 1,311,562
Adjustment to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation and amortization	434,683
(Increase) decrease in accounts receivable	(144,290)
(Increase) decrease in inventory	(120,660)
(Increase) decrease in prepaid items	(17,594)
Increase (decrease) in accounts payable	(19,085)
Increase (decrease) in accrued expenses	24,558
Increase (decrease) in customer deposits	<u>70,455</u>
Total adjustments	<u>228,067</u>
Net cash provided by (used for) operating activities	<u>\$ 1,539,629</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - REPORTING ENTITY

Crystal Clear Special Utility District is a governmental entity created pursuant to Texas Senate Bill 1116, 83rd Legislature R.S. (2013) further codified in Texas Special District Local Laws Code Chapter 7206, enacted under the authority granted to the Texas Legislature in Texas Constitution Article XVI Section 59, to acquire, build, and operate a water distribution system to provide water services within the jurisdiction of the Crystal Clear Special Utility District. Crystal Clear Water Supply Corporation was dissolved and all of its assets, liabilities and equity of that organization were transferred/merged into the newly created Crystal Clear Special Utility District. The merger date for financial reporting purposes was January 1, 2015. The District changed its fiscal year-end to September 30, beginning January 1, 2016. Thus, these financial statements reflect nine months of operations.

The Board of Directors, a seven member group elected by voters of the District, is the level of governance responsible for all activities of the Crystal Clear Special Utility District. The District is not included in any other governmental "Reporting Entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." Component units are organizations for which the District is financially accountable and all other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. As of September 30, 2016, Crystal Clear Special Utility District does not have any component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles.

A. Basis of Presentation

The accounts of the District are organized on the basis of funds. The District has a single fund - the Proprietary Fund. It is an Enterprise Fund, which is a proprietary fund type. GASB No. 34 permits the use of enterprise funds whenever a fee is charged to external users for goods or services. The Enterprise Fund is used to account for operations: (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services be financed or recovered primarily through user charges; or (2) the activity may be financed with debt secured solely by a pledge of the net revenues from fees and charges.

B. Basis of Accounting

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 position.

C. Budget

Prior to the start of the fiscal year, the Board of the District adopts an operating budget for the upcoming fiscal year. The adopted budget and any subsequent amendments are approved by the Board as prepared by the General Manager of the District.

D. 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 by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds Governmental Entities that Use Proprietary Fund Accounting*, and GASB 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as non-operating revenues or non-operating expense utilizing the direct method.

E. Capital Assets

Capital assets, which include land, buildings, improvements, and equipment are recorded at original cost. From the time assets are placed in service, depreciation is provided using the straight-line method over their estimated useful lives, which range from five years for certain equipment to fifty years for the District's lines, tanks and water distribution system. All property and equipment acquired is capitalized if the life of an asset is greater than one year and if the cost is \$10,000 or more. Maintenance and repairs are expensed as incurred.

F. Cash and Cash Equivalents

Cash and Cash Equivalents are comprised of deposits in financial institutions, including time deposits. For the purpose of the statement of cash flows, a cash equivalent is considered any highly liquid investment with a maturity of ninety days or less.

G. Inventories

The District records purchases of inventories as expenses at the time of purchase. Inventory at year-end consists primarily of supplies and is valued at cost.

H. Accounts Receivable

Accounts receivable consists of the following:

Water Sales	\$555,661
Due from Cherryville	<u>13,192</u>
TOTAL	<u>\$568,853</u>

No allowance for uncollectible accounts is needed because customer deposits can be used to cover unpaid water bills. Water service is discontinued for unpaid bills, and past due accounts must be paid before the discontinued water service is reinstated. Billings are sent to customers each month.

I. Pension Plan

Crystal Clear Special Utility District (CCSUD) began participation in the Texas County & District Retirement System (TCDRS) as of May 1, 2016, and therefore did not have any participating employees as of the TCDRS measurement date, Dec. 31, 2015. A description of the pension plan pursuant to Paragraph 40 of GASB Statement No. 68 is as follows:

- a. CCSUD participates in TCDRS, which is a statewide, agent multiple-employer, public employee retirement system.
- b. A brief description of benefit terms:
 - 1) All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.
 - 2) The plan provides retirement, disability and survivor benefits.
 - 3) TCDRS is a savings-based plan. For the CCSUD plan, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage(s) (current match is 100%) and is then converted to an annuity.

J. Compensated Absences

The District allows employees to accumulate vacation and sick leave with certain limitations. As of September 30, 2016, accrued vacation liability was \$13,933. Vacation accrued and unused is payable upon termination. Unused sick leave is not payable upon termination.

K. Estimates

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

L. Net Position

Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted - Net position reported as restricted represents limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

NOTE 3 - DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Statutes of the Texas Water Code. For safekeeping and trust with the District's agent bank, the depository bank deposits approved pledged securities in an amount sufficient to protect the District's 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). The District was in compliance with these statutes for all of fiscal year 2016.

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.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that in the areas of investment practices, management has established appropriate policies and the District adheres to the requirements of the Act. Additionally, investment practices of the District are in accordance with local policies.

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

Cash and Temporary Investments:

<u>Institution</u>	<u>Type</u>	<u>Amount</u>
Petty Cash	Petty Cash	\$ 1,566
Broadway Bank	Checking	1,426,537
Broadway Bank	MM	742,420
American Bank	MM	16,510
Marion State Bank	CD	250,000
Schertz Bank & Trust	CD	140,000
Prosperity Bank	CD	<u>150,000</u>
TOTAL		<u>\$ 2,727,033</u>

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end, 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 collateralized 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. At year-end, the District was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the District was not exposed to interest rate risk.

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the District had no exposure to foreign currency risks.

NOTE 4 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year:

	<u>Balance</u> <u>12-31-15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9-30-16</u>
Non-depreciable:				
Land and easements	\$ 340,730	\$ 18,108	\$ -	\$ 358,838
Water rights	2,522,628	-	-	2,522,628
Construction in progress	<u>2,436,251</u>	<u>1,247,125</u>	<u>373,138</u>	<u>3,310,238</u>
Total capital assets, non-depreciable	<u>5,299,609</u>	<u>1,265,233</u>	<u>373,138</u>	<u>6,191,704</u>
Depreciable:				
Equipment and vehicles	724,689	32,291	45,546	711,434
Improvements	16,494,522	1,826,925	-	18,321,447
Buildings	974,563	-	-	974,563
Office equipment	<u>383,775</u>	<u>6,974</u>	<u>-</u>	<u>390,749</u>
Total capital assets, depreciable	18,577,549	1,866,190	45,546	20,398,193
Less accumulated depreciation	<u>5,376,791</u>	<u>434,683</u>	<u>45,546</u>	<u>5,765,928</u>
Total depreciable capital assets	<u>3,200,758</u>	<u>1,431,507</u>	<u>-</u>	<u>14,632,265</u>
Total capital assets	<u>\$18,500,367</u>	<u>\$2,696,741</u>	<u>\$ 373,138</u>	<u>\$20,823,970</u>

Depreciation expense for the year was \$ 434,683.

NOTE 5 - LONG-TERM DEBT

Bonds Payable

The District issued Combination Water and Sewer System Revenue Refunding Bonds, Series 2015, totaling \$3,200,000, where all proceeds were used to pay off a note payable to CoBank. The bonds are dated July 22, 2016, and were issued July 22, 2016. The bonds were purchased at closing by the United States of America Department of Agriculture. The interest rate is 2.75% with payments due semi-annually on June 1 and December 1, beginning December 1, 2016. Final maturity date is December 1, 2055. There shall be set aside into a reserve account, the sum of \$1,242 each month.

Bond debt service requirements to maturity on bonds at year end are as follows:

Year Ended	Total		
<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2017	\$40,000	\$75,156	\$115,156
2018	\$45,000	\$86,283	\$131,283
2019	\$46,000	\$85,032	\$131,032
2020	\$48,000	\$83,967	\$131,967
2021	\$49,000	\$82,406	\$131,406
2022-2026	\$266,000	\$390,997	\$656,997
2027-2031	\$307,000	\$351,643	\$658,643
2032-2036	\$355,000	\$306,349	\$661,349
2037-2041	\$408,000	\$253,778	\$661,778
2042-2046	\$471,000	\$193,459	\$664,459
2047-2051	\$541,000	\$123,966	\$664,966
2052-2055	\$624,000	\$43,924	\$667,924
TOTALS	<u>\$3,200,000</u>	<u>\$2,076,960</u>	<u>\$5,276,960</u>

Notes Payable

Amended notes with CoBank, the Lender, were made on August 24, 2015, to replace all loans made prior to such date. The effect of this redocumentation transaction was a complete refinance of all prior loans. These notes are payable in semi-annual payments with interest rates ranging from 4.50% to 4.80%. The prior loan proceeds were used to acquire water rights and to make capital improvements to the water supply system. The notes are secured by the District's real and personal property.

The following presents changes in notes for the year:

Beginning Balance		Ending Balance	
<u>January 1, 2016</u>	<u>Issued</u>	<u>Retired</u>	<u>September 30, 2016</u>
<u>\$ 9,230,073</u>	<u>\$ - 0 -</u>	<u>\$ 3,370,655</u>	<u>\$ 5,859,418</u>

Note payable debt service requirements are as follows:

<u>Year Ended</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 236,286	\$ 277,484	\$ 513,770
2018	244,644	266,074	510,718
2019	252,729	254,297	507,026
2020	260,980	242,742	503,722
2021	269,700	229,470	499,170
2022-2026	1,488,125	943,961	2,432,086
2027-2031	1,733,537	560,265	2,293,802
2032-2036	<u>1,373,417</u>	<u>276,375</u>	<u>1,649,792</u>
TOTALS	<u>\$ 5,859,418</u>	<u>\$ 3,050,668</u>	<u>\$8,910,086</u>

NOTE 6 - CUSTOMER DEPOSITS

The District, currently, requires each new customer to deposit \$300 for water service, which is held as a refundable deposit to secure payment of the customer's water bill. At September 30, 2016, the District's obligation for refundable deposits owed to water customers was \$561,570.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - LITIGATION

The District is a party to several legal proceedings which occurred in the normal course of operations. There is a reasonable possibility that a loss has been incurred, but any such losses can not be reasonably estimated at this time.

NOTE 9 - PARTICIPATION WITH CRWA

Crystal Clear Special Utility District is a participating member in a contract to purchase water with Canyon Regional Water Authority, (CRWA), a regional water authority. The Authority was created to purchase, own, hold, lease, and acquire sources of a potable water supply; to build, operate, and maintain facilities for the treatment and transportation of water; to sell potable water to local governments, water supply corporations, and other persons, and to protect, preserve, and restore the purity and sanitary condition to water in the Authority.

To finance the costs of acquisition, construction, and equipping of facilities, the Authority issued bonds secured and payable from revenues received from its participating members. Each participating member, which includes Crystal Clear Special Utility District, has contracted to pay its share of costs of the operation of Canyon Regional Water Authority in proportion to the respective amounts of treated water each has agreed to purchase under the contract.

Included in operating expenses as reported in the Statement of Revenues, Expenses and Changes in Net Position, are Crystal Clear Special Utility District's share of: administrative and planning expenses, debt obligations including bonds, notes, and other obligations, and operating and maintenance costs.

NOTE 10 - SUBSEQUENT EVENTS

The District's management has evaluated events and transactions occurring after the end of the fiscal year through January 23, 2017, the date which the financial statements were available to be issued. During that time management is not aware of any events requiring financial statement disclosure.

SUPPLEMENTAL SCHEDULES

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
ENTERPRISE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Water/waste water sales	\$ 5,382,869	\$ 4,124,602	\$ 4,135,598	\$ 10,996
Customer charges/fees	849,024	1,086,734	1,009,823	(76,911)
Miscellaneous income	30,000	314	23,597	23,283
Total operating revenues	<u>6,261,893</u>	<u>5,211,650</u>	<u>5,169,018</u>	<u>(42,632)</u>
OPERATING EXPENSES				
Operation and Maintenance:				
Personnel costs and benefits	820,479	620,015	608,675	11,340
Water distribution system	1,765,604	1,241,696	1,225,445	16,251
Other operating costs	1,432,687	1,063,695	841,314	222,381
Professional and legal fees	442,600	624,013	618,358	5,655
Insurance	181,063	157,835	128,981	28,854
Depreciation and amortization	425,000	318,750	434,683	(115,933)
Total operating expenses	<u>5,067,433</u>	<u>4,026,004</u>	<u>3,857,456</u>	<u>168,548</u>
Operating income (loss)	<u>1,194,460</u>	<u>1,185,646</u>	<u>1,311,562</u>	<u>125,916</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	7,200	3,841	3,841	-
Interest expense	(334,430)	(228,583)	(245,590)	(17,007)
Total non-operating revenues (expenses)	<u>(327,230)</u>	<u>(224,742)</u>	<u>(241,749)</u>	<u>(17,007)</u>
CAPITAL CONTRIBUTIONS	-	-	1,435,849	1,435,849
Change in net position	<u>867,230</u>	<u>960,904</u>	<u>2,505,662</u>	<u>1,544,758</u>
Net position - beginning of year	11,790,102	11,790,102	11,790,102	-
Net position -end of year	<u>\$ 12,657,332</u>	<u>\$12,751,006</u>	<u>\$14,295,764</u>	<u>\$ 1,544,758</u>

Note: The District prepared the original budget based on twelve months of operations. The final budget reflects nine months of operations because of the year-end change from a calendar year to a September 30 fiscal year.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
SCHEDULE OF SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

1. Services Provided by the District:

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

2. Retail Rates Based on 5/8" Meter:

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 40.21	N/A	N	\$ 4.85	0-5000
				\$ 5.33	5000-10,000
				\$ 6.34	10,000-20,000
				\$ 8.13	20,000-50,000
				\$ 9.95	Over 50,000

District employs winter averaging for wastewater usage?

Yes ___ No X

Total water charges per 10,000 gallons usage
(including surcharges)

\$ 98.06

3. Retail Water Connections: Number of retail water connections within the District as of the fiscal year end. Actual numbers and single family equivalents (ESFC) are noted:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	x 1.0	-
< 3/4"	4,997	4,997	x 1.0	4,997
1"	198	198	x 2.5	495
1 1/2"	0	0	x 5.0	-
2"	3	3	x 8.0	24
3"	0	0	x 15.0	-
4"	0	0	x 25.0	-
6"	0	0	x 50.0	-
Water Total	5,198	5,198		5,516

4. Total Water Consumption During the Fiscal Year:

Gallons pumped into system: # 565,182,600

Gallons billed to customers: 350,224,700

Water Accountability Ratio 62%

5. Standby Fees: N/A

6. Location of District:

Counties in which District is located. Hays, Comal, Guadalupe

Is the District located entirely within one county? Yes _____ No X

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

City (ies) in which District is located. San Marcos, Seguin, New Braunfels

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

Entirely _____ Partly X Not at all _____

ETJ's in which District is located. San Marcos, Seguin, New Braunfels

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

Yes _____ No X

If Yes, by whom? N/A

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
ENTERPRISE FUND EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

CRWA expenses	\$ 535,227
Dues and fees	29,193
Engineering fees	245,300
Insurance	128,981
Interest expense	245,590
Legal and professional fees	618,358
Office expenses	209,177
Payroll and benefits	608,675
Operations and maintenance	440,698
Utilities	112,539
Vehicle expenses	49,707
Water purchases	306,026
Water rights	138,892
Depreciation	<u>434,683</u>
	<u>\$ 4,103,046</u>

Number of persons employed by the District:

Full Time 14
Part Time 0

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TEMPORARY INVESTMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

<u>Enterprise Fund</u>	<u>Identification Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
Certificate of Deposit	26140	.50%	12-18-16	\$ 100,000	-
Certificate of Deposit	26974	.25%	10-29-16	50,000	-
Certificate of Deposit	26975	.40%	10-29-16	100,000	-
Certificate of Deposit	4000176	.25%	01-10-17	40,000	-
Certificate of Deposit	4000212	.35%	11-06-16	100,000	-
Certificate of Deposit	53395	.35%	01-02-17	<u>150,000</u>	-
			TOTAL	<u>\$ 540,000</u>	

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Does Not Apply

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
LONG-TERM BONDED DEBT SERVICE REQUIREMENTS BY YEARS
SERIES 2015
FOR THE YEAR ENDED SEPTEMBER 30, 2016

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$40,000	\$75,156	\$115,156
2018	\$45,000	\$86,283	\$131,283
2019	\$46,000	\$85,032	\$131,032
2020	\$48,000	\$83,967	\$131,967
2021	\$49,000	\$82,406	\$131,406
2022-2026	\$266,000	\$390,997	\$656,997
2027-2031	\$307,000	\$351,643	\$658,643
2032-2036	\$355,000	\$306,349	\$661,349
2037-2041	\$408,000	\$253,778	\$661,778
2042-2046	\$471,000	\$193,459	\$664,459
2047-2051	\$541,000	\$123,966	\$664,966
2052-2055	<u>\$624,000</u>	<u>\$43,924</u>	<u>\$667,924</u>
TOTALS	<u>\$3,200,000</u>	<u>\$2,076,960</u>	<u>\$5,276,960</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
CHANGE IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2016

	<u>Series 2015</u>
Interest Rate	2.75%
Dates Interest Payable	6/1;12-1
Maturity Date	12/1/2055
Balance January 1, 2016	\$ - 0 -
Bonds Sold During The Fiscal Year	\$3,200,000
Bonds Retired During The Fiscal Year	<u>\$ - 0 -</u>
Balance September 30, 2016	<u>\$ 3,200,000</u>
Interest Expense During The Fiscal Year	<u>\$17,006</u>
Paying Agent's Name and City: United States Department of Agriculture, Seguin, Texas.	
Bond Authority: Revenue Refunding Bonds.	
Amount Authorized:	\$3,200,000
Amount Issued:	\$3,200,000
Remaining To Be Issued:	\$ - 0 -
Restricted Cash For Debt Service	\$39,937
Average Annual Principal and Interest Requirements for Remaining Term of Bonded Debt	\$135,307

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUE AND EXPENDITURES
TWO YEARS ENDED SEPTEMBER 30, 2016

	2016	2015	Percent of Total Operating Revenue	
	(Nine Months)	(Twelve Months)	2016	2015
Operating Revenue:				
Water/Waste Water Sales	\$4,135,598	\$4,768,387	80.01%	92.02%
Customer Charges and Fees	1,009,823	375,536	19.54	7.25
Miscellaneous Income	<u>23,597</u>	<u>38,047</u>	<u>0.45</u>	<u>0.73</u>
Total Operating Revenue	<u>5,169,018</u>	<u>5,181,970</u>	<u>100.00</u>	<u>100.00</u>
Operating Expenses:				
Personnel Costs and Benefits	608,675	742,064	11.78	14.32
Water Distribution System	1,225,445	1,545,299	23.71	29.82
Other Operating Costs	841,314	1,382,503	16.28	26.68
Professional and Legal Fees	618,358	677,641	11.96	13.08
Insurance	128,981	178,264	2.50	3.44
Depreciation	<u>434,683</u>	<u>494,499</u>	<u>8.40</u>	<u>9.54</u>
Total Operating Expenses	<u>3,857,456</u>	<u>5,020,270</u>	<u>74.63</u>	<u>96.88</u>
Operating Income (Loss)	1,311,562	161,700	25.37	3.12
Non Operating Revenues (Expenses):				
Interest Income	3,841	7,106	.07	.13
Interest Expense	<u>(245,590)</u>	<u>(274,798)</u>	<u>(4.75)</u>	<u>(5.30)</u>
Total Non Operating Revenues (Expenses)	<u>(241,749)</u>	<u>(267,692)</u>	<u>(4.68)</u>	<u>(5.17)</u>
Capital Contributions	<u>1,435,849</u>	<u>- 0 -</u>	<u>27.78</u>	<u>- 0 -</u>
Change in Net Position	<u>\$2,505,662</u>	<u>\$ (105,992)</u>	<u>48.47%</u>	<u>(2.05%)</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
YEAR ENDED SEPTEMBER 30, 2016

Complete District Mailing Address: 2370 FM 1979 San Marcos, TX 78666

District Business Telephone Number: 830-372-1031

Submission Date of the most recent District Registration Form: January, 2016

Limit on fees of office that a Director may receive during a fiscal year: \$7,200

	<u>Term of Office</u>	<u>Fees of Office Paid 9/30/2016</u>	<u>Expense Reimbursements 9/30/2016</u>	<u>Title at Year End</u>
<u>Names of Board Members - Elected:</u>				
Don Bosworth	2014/2018	\$ -	\$ 504	President
Jack Carson	2008/2016	\$ -	\$ -	Vice-President
Mike Cox	2011/2016	\$ -	\$ -	Treasurer
Amy Galle	2016/2018	\$ -	\$ -	Secretary
Richard Hanz	1977/2017	\$ -	\$ -	Director
Jim Davidson	2014/2016	\$ -	\$ -	Director
Madelyn Patlan	2015/2017	\$ -	\$ -	Director
 <u>Key Administrative Personnel:</u>				
Mike Taylor		\$ 73,146.00	\$ -	General Manager
Suzie Silva		\$ 59,092.12	\$ -	Office/Operations Manager
George Patterson		\$ 23,076.96	\$ -	Assistant General Manager
Regina Franke		\$ 5,520.00	\$ -	Office Manager
 <u>Consultants:</u>				
Rick C. Reed & Co., PLLC		\$ 18,800	\$ -	Auditor
The Terrill Firm		\$ 92,695	\$ -	Attorney
M & S Engineering		\$ 369,988	\$ -	Engineer

INTERNAL CONTROL/COMPLIANCE SECTION

Rick C. Reed
& COMPANY, PLLC
Certified Public Accountants

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
Crystal Clear Special Utility District

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 the business-type activities of Crystal Clear Special Utility District, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Crystal Clear Special Utility District's basic financial statements, and have issued our report thereon dated January 23, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Crystal Clear Special Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Crystal Clear Special Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of Crystal Clear 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.

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SAN MARCOS, TX 78667-0867
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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crystal Clear Special Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rick C. Reed & Company, PLLC

Rick C. Reed & Company, PLLC
San Marcos, Texas
January 23, 2017

Rick C. Reed
& COMPANY, PLLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Crystal Clear Special Utility District

Report on Compliance for Each Major Federal Program

We have audited Crystal Clear Special Utility District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Crystal Clear Special Utility District's major federal programs for the year ended September 30, 2016. Crystal Clear Special Utility District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Crystal Clear Special Utility District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Crystal Clear Special Utility District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Crystal Clear Special Utility District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Crystal Clear Special Utility District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of Crystal Clear Special Utility District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Crystal Clear Special Utility District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Crystal Clear Special Utility District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose

Rick C. Reed & Company, PLLC

Rick C. Reed & Company, PLLC
San Marcos, Texas
January 23, 2017

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditure</u>
U.S. Department of Agriculture	10.760	\$ 3,200,000

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Federal Awards includes the federal loan activity of the Crystal Clear Special Utility District and is presented on the accrual basis of accounting. The information in this schedule is present in accordance with the requirements of OMB A-133 *Audits of States, Local Governments, and Non-Profit Organizations*.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2016

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Crystal Clear Special Utility District were prepared in accordance with GAAP.
2. No significant deficiencies were disclosed during the audit of the financial statements. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Crystal Clear Special Utility District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies in internal control over major federal award programs. Also, no material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for Crystal Clear Special Utility District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The programs tested as major programs were: Water and Waste Disposal Systems For Rural Communities (CFDA #10.760).
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Crystal Clear Special Utility District was determined to be a low-risk auditee.