



ANNUAL FINANCIAL REPORT

**FISCAL YEAR ENDED
SEPTEMBER 30, 2017**

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS

	PAGE
TITLE PAGE	i
TABLE OF CONTENTS	ii
 FINANCIAL SECTION 	
ANNUAL FILING AFFIDAVIT	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	8
STATEMENT OF NET POSITION	9
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	10
STATEMENT OF CASH FLOWS	11
NOTES TO BASIC FINANCIAL STATEMENTS	13
REQUIRED SUPPLEMENTARY INFORMATION	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	
BUDGET TO ACTUAL	28
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS	29
SCHEDULE OF EMPLOYER CONTRIBUTIONS	30
SUPPLEMENTARY INFORMATION	31
TSI-1. SERVICES AND RATES	32
TSI-2. ENTERPRISE FUND EXPENSES	34
TSI-3. TEMPORARY INVESTMENTS	35
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS	36
TSI-6. CHANGES IN LONG-TERM BONDED DEBT	37
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES	38
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS	40
COMPLIANCE SECTION	41
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	42

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS :

COUNTY OF HAYS :

I, Mike Taylor, of Crystal Clear Special Utility District hereby swear, or affirm, that the District named above has reviewed and approved, at a meeting of the District's Board of Trustees on the 25th day of January, 2018, its annual audit report of the fiscal period ended September 30, 2017, and that copies of the annual audit report have been filed in the District's office located at 2370 FM 1979, San Marcos, TX 78666.

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

Date: January 25, 2018 By: Mike Taylor
(Signature of District Official)

Mike Taylor, General Manager
(Typed Name & Title of District Representative)

Sworn to and subscribed to before me this 25th day of January, 2018.



Regina C Franke
(Signature of Notary)

Commission expires on May 29, 2019
Notary Public in the State of Texas

Nancy L. Vaughan, CPA
Deborah F. Fraser, CPA
Phil S. Vaughan, CPA



Armstrong, Vaughan & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Crystal Clear Special Utility District
2370 FM 1979
San Marcos, TX 78666

Report on the Financial Statements

We have audited the accompanying financial statements of the Crystal Clear Special Utility District, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Crystal Clear Special Utility District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Crystal Clear Special Utility District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Crystal Clear Special Utility District, as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

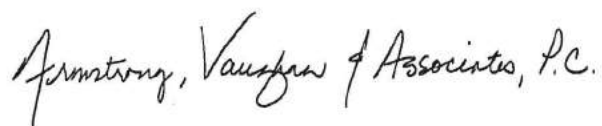
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Crystal Clear Special Utility District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information required by the Texas Commission on Environmental Quality is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018 on our consideration of 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.



Armstrong, Vaughan & Associates, P.C.

January 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Crystal Clear Special Utility District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended September 30, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$14.4 million at September 30, 2017, an increase of \$1.4 million.
- During the year, the District's operating revenues were \$525 thousand more than the \$6.3 million in operating expenses.
- No new debt was issued during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

FINANCIAL ANALYSIS OF THE DISTRICT

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

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

The District's combined net position was \$14.4 million at September 30, 2017. Of this amount, \$210 thousand is unrestricted, representing resources available to fund the operations of the District next year. (See Table A-1).

Table A-1
District's Net Position

	2017	2016*	Percentage Change
<i>Assets:</i>			
Cash and Investments	\$ 1,708,115	\$ 2,165,463	-21%
Other Current Assets	1,421,754	742,951	91%
Other Assets	199,433	596,394	-67%
Capital Assets (Net)	22,936,275	20,823,969	10%
<i>Total Assets</i>	<u>26,265,577</u>	<u>24,328,777</u>	8%
<i>Deferred Outflows</i>	<u>24,859</u>	<u>11,039</u>	125%
<i>Liabilities:</i>			
Current	3,372,542	3,082,693	9%
Long Term	8,493,198	8,782,597	-3%
<i>Total Liabilities</i>	<u>11,865,740</u>	<u>11,865,290</u>	0%
<i>Net Position:</i>			
Net Investment in Capital Assets	14,155,008	11,764,551	20%
Restricted	59	39,937	-100%
Unrestricted	269,629	670,038	-60%
<i>Total Net Position</i>	<u>\$ 14,424,696</u>	<u>\$ 12,474,526</u>	16%

*2016 has been restated to reflect the results of a prior period adjustment.

The District's total operating revenues were \$6.8 million, an increase of 51% over the short period of nine months ending September 30, 2016. The operating expenses were \$6.3 million, an increase of 63% over the prior nine month period. (See Table A-2)

Table A-2
Changes in District Net Position

	2017	2016*	Percentage Change
Operating Revenues	\$ 6,783,868	\$ 4,483,973	51%
Operating Expenses	<u>(6,258,842)</u>	<u>(3,839,321)</u>	63%
Operating Income (Loss)	525,026	644,652	-19%
Nonoperating Income (Expense)	<u>899,987</u>	<u>1,861,010</u>	-52%
Change in Net Position	<u>\$ 1,425,013</u>	<u>\$ 2,505,662</u>	-43%

*2016 represents only nine months because of the change in year.

BUDGETARY HIGHLIGHTS

District revenues exceeded expectations in the budget by \$410 thousand, while operating expenses also exceeded the budget by \$230 thousand. The net change in net position was \$1.4 million, \$808 thousand more than the budget anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2017, the District had invested \$29 million in a broad range of capital assets, including land, buildings, equipment, treatment plants, and distribution systems. (See Table A-3.) More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table A-3
District's Capital Assets

	2017	2016	Percentage Change
Land	\$ 363,538	\$ 358,838	1%
Water Rights	2,522,628	2,522,628	0%
Building and Improvements	974,563	974,563	0%
Plant and Distribution System	20,329,036	18,321,447	11%
Machinery and Equipment	1,111,108	1,102,183	1%
Construction in Progress	3,962,222	3,310,238	20%
Totals at Historical Cost	<u>29,263,095</u>	<u>26,589,897</u>	<u>10%</u>
 Total Accumulated Depreciation	<u>(6,326,820)</u>	<u>(5,765,928)</u>	<u>10%</u>
Net Capital Assets	<u>\$ 22,936,275</u>	<u>\$ 20,823,969</u>	<u>10%</u>

Long-Term Debt

At year-end, the District had \$8.8 million in principal outstanding on bonded debt and notes. More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-4
District's Long Term Debt

	2017	2016	Percentage Change
Bonds Payable	\$ 5,621,267	\$ 5,859,418	-4.06%
Notes Payable	<u>3,160,000</u>	<u>3,200,000</u>	<u>-1.25%</u>
Total Long-Term Debt	<u>\$ 8,781,267</u>	<u>\$ 9,059,418</u>	<u>-3.07%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In October 2017, the District issued \$15 million in bonds through the Texas Water Development Board for the Capital Improvement Plan to deal with regulatory compliance and aging infrastructure. The District created a Texas Water Development Board Bond fee of \$5 per customer per month to help service the new debt. Most other rates are largely unchanged. Aside from the new debt and resulting construction, the District expects no major changes to services or operations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 2370 FM 1979, San Marcos, TX 78666.

BASIC FINANCIAL STATEMENTS

The basic financial statements include:

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

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

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,308,170
Certificates of Deposit	399,945
Accounts Receivable (net)	1,315,705
Inventory	67,809
Prepaid Expense	38,240
<i>Total Current Assets</i>	<u>3,129,869</u>

Other Assets:

Restricted Cash for USDA Reserve	59,441
Restricted Certificates of Deposit for Debt Service	139,992
<i>Total Other Assets</i>	<u>199,433</u>

Capital Assets (net)

22,936,275

TOTAL ASSETS

26,265,577

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Related Outflows	<u>24,859</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	428,246
Payroll Liabilities	6,479
Accrued Wages	16,442
Customer Deposits	644,183
Accrued Interest, Payable from Restricted Assets	140,538
Accrued Compensated Absences	24,726
Payable to Canyon Regional Water Authority	1,821,238
Bonds Payable - Current	290,690
<i>Total Current Liabilities</i>	<u>3,372,542</u>

Long-term Liabilities:

Bonds Payable - Net of Current Portion	8,490,577
Net Pension Liability	2,621
<i>Total Long-term Liabilities</i>	<u>8,493,198</u>
TOTAL LIABILITIES	<u>11,865,740</u>

NET POSITION

Net Investment in Capital Assets	14,155,008
Restricted:	
Bond Reserve	59,441
Unrestricted	210,247
TOTAL NET POSITION	<u>\$ 14,424,696</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

OPERATING REVENUES

Water Sales	\$ 6,590,266
Wastewater Charges	29,904
Other Charges	163,698
TOTAL OPERATING REVENUES	<u>6,783,868</u>

OPERATING EXPENSES

Personnel	1,061,422
Insurance	53,115
Professional Fees	874,215
Admin Expenses	333,568
Operations and Maintenance	1,531,186
Vehicles and Equipment	67,264
Utilities	125,982
Water Purchase	1,609,122
Depreciation	602,968
TOTAL OPERATING EXPENSES	<u>6,258,842</u>

OPERATING INCOME (LOSS)	<u>525,026</u>
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NON-OPERATING REVENUES (EXPENSES)

Interest Income	2,899
Capital, Reservation and Installation Fees	1,243,828
Gain on the Sale of Property and Equipment	16,000
Interest Expense	(362,435)
Other Expenses	(305)
TOTAL NON-OPERATING REVENUES	<u>899,987</u>

CHANGE IN NET ASSETS	1,425,013
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Net Position at Beginning of Year	14,295,764
Prior Period Adjustment	(1,296,081)
Net Position at End of Year	<u>\$ 14,424,696</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Cash Flows from Operating Activities

Cash Received from Customers	\$ 6,644,786	
Cash Payments to Suppliers for Goods and Services	(4,392,168)	
Cash Payments to Employees for Services	(1,065,211)	
Net Cash Provided (Used) by Operating Activities	<u>1,187,407</u>	

Cash Flows from Capital and Related Financing Activities

Principal Payments on Bonds and Notes Payable	(278,151)	
Capital, Reservation and Installation Fees	1,243,828	
Interest Paid	(309,885)	
Other Expenses	(305)	
Proceeds from the Sale of Property and Equipment	16,000	
Purchase of Property, Plant and Equipment	(2,681,278)	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,009,791)</u>	

Cash Flows from Investing Activities

Interest and Investment Income	2,899	
Withdrawal from Certificates of Deposit	63	
Net Cash Provided (Used) by Investing Activities	<u>2,962</u>	

Net Increase (Decrease) in Cash and Cash Equivalents	(819,422)	
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Beginning Cash and Cash Equivalents

Unrestricted	2,147,096	
Restricted	<u>39,937</u>	<u>2,187,033</u>

Ending Cash and Cash Equivalents

Unrestricted	1,308,170	
Restricted	<u>59,441</u>	<u>\$ 1,367,611</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Reconciliation of Operating Income to Net Cash Provided (Used)
by Operating Activities**

Operating Income (Loss)	\$ 525,026
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:	
Depreciation	602,968
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(221,695)
(Increase) Decrease in Inventory	68,877
(Increase) Decrease in Deferred Pension Related Outflows	(13,820)
Increase (Decrease) in Accounts Payable	133,407
Increase (Decrease) in Payroll Liabilities	(19,825)
Increase (Decrease) in Accrued Wages	16,442
Increase (Decrease) in Customer Deposits	82,613
Increase (Decrease) in Accrued Compensated Absences	10,793
Increase (Decrease) in Net Pension Liability	2,621
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,187,407</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Crystal Clear Special Utility District (the "District") was created pursuant to Texas Senate Bill 116, 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. Prior to that date the District operated as a Water Supply Corporation. The District was organized to furnish potable water and wastewater utility services. The District is managed by a Board of Directors consisting of seven members elected by voters residing in the District's boundaries. The District serves customers in Hays, Comal and Guadalupe counties.

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

1. REPORTING ENTITY

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

2. ENTERPRISE FUND

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

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

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

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

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

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

4. CASH AND INVESTMENTS

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

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

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

5. ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts due from customers for services rendered and is presented net of an allowance for doubtful accounts based on management's estimate.

6. INVENTORY

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

7. PREPAID EXPENSES

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

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

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

8. CAPITAL ASSETS

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

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

Buildings and Improvements	10 to 50 years
Equipment	3 to 10 years
Water Plants and Distribution Systems	20 to 50 years

9. DEFERRED INFLOWS AND OUTFLOWS

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

10. CUSTOMER DEPOSITS

Upon the creation of a new account, customers make a deposit toward their final bill. The amount is recorded as customer deposits liability on the Statement of Net Position.

11. LONG-TERM OBLIGATIONS

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

12. NET POSITION

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

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

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

13. BUDGET

An operating budget is adopted each fiscal year for the District. The budget is adopted on a modified accrual basis of accounting. Additional budgetary information is provided in the required supplementary information.

14. USE OF ESTIMATES

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

15. RECLASSIFICATIONS

Certain transactions are classified differently on the September 30, 2017 financial statements than previous fiscal years. These reclassifications had no effect on net income.

NOTE B -- CASH AND INVESTMENTS

1. Cash and Cash Equivalents

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledge securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. At September 30, 2017, the District's bank deposits were covered by a combination of federal deposit insurance and pledged securities. All of the District's deposits were fully collateralized, including certificates of deposit.

2. Investments

The District is required by Government Code Chapter 2256, The Public Funds Investment 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) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE B -- CASH AND INVESTMENTS (Continued)

2. Investments (Continued)

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 the District's investment practices, management reports and establishment of appropriate policies adhered to the requirements of the Act except for the annual adoption of the investment policy and investment officer training.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

As of September 30, 2017, the District's investments consisted of only certificates of deposit that are presented at amortized cost.

NOTE C -- RESTRICTED CASH AND CERTIFICATES

Restricted cash consists of a debt service and loan reserves related to the USDA Series 2015 Revenue Bonds. The District is required to make monthly transfers to these accounts up to certain limits and may only spend the balances on debt service or USDA approved activities.

NOTE D -- ACCOUNTS RECEIVABLE

District receivables as of September 30, 2017, consisted of the following:

Customer Balances	\$ 676,738
Unbilled Services Rendered	697,103
Capital and Reservation Fees	13,820
Allowance for Uncollectible Accounts	(71,956)
Total Accounts Receivable (net)	<u>\$ 1,315,705</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE E -- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Balances at 10/1/16	Additions	Transfers/ Disposals	Balances at 9/30/2017
Land	\$ 358,838	\$ 4,700	\$ -	\$ 363,538
Water Rights	2,522,628	-	-	2,522,628
Building and Improvements	974,563	-	-	974,563
Plant and Distribution System	18,321,447	659,543	1,348,046	20,329,036
Machinery and Equipment	1,102,183	51,001	(42,076)	1,111,108
Construction in Progress	3,310,238	2,000,030	(1,348,046)	3,962,222
	<u>26,589,897</u>	<u>2,715,274</u>	<u>(42,076)</u>	<u>29,263,095</u>
<i>Less Accumulated Depreciation</i>				
Building and Improvements	(209,214)	(23,374)	-	(232,588)
Plant and Distribution System	(4,675,213)	(474,670)	-	(5,149,883)
Machinery and Equipment	(881,501)	(104,924)	42,076	(944,349)
	<u>(5,765,928)</u>	<u>(602,968)</u>	<u>42,076</u>	<u>(6,326,820)</u>
Capital Assets, Net	<u>\$ 20,823,969</u>	<u>\$ 2,112,306</u>	<u>\$ -</u>	<u>\$ 22,936,275</u>

Land, Water Rights and Construction in Progress are not depreciated.

NOTE F -- LONG-TERM DEBT

Bonds Payable

Combination Water and Sewer System Revenue Refunding Bonds, Series 2015 were issued by the District in July 2016 to pay off short term borrowings for construction of system improvements. The bonds were purchased at closing by the United States Department of Agriculture. The bonds bear interest at 2.75% and mature serially through December 1, 2055. The bonds require monthly transfers to a debt service account sufficient to cover the forthcoming debt payment. In addition, a monthly deposit of \$1,242 is required to a reserve account until \$148,992 is reached. The reserve account may only be spent with prior written approval of USDA.

Notes Payable

The District signed promissory notes with CoBank to refinance existing notes in 2015. The CoBank notes bear interest at 4.5-4.8% and require quarterly payments of interest and principal until maturity on April 20, 2036. The notes require the District to maintain debt service coverage and debt to capitalization ratios to which the District has complied.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE F -- LONG-TERM DEBT (Continued)

The District's long-term debt activity as of and for the year ending September 30, 2017 is as follows:

Bonds Payable, Series	Balance Outstanding 10/1/2016	Additions	Retirements	Balance Outstanding 9/30/2017	Due Within One Year
CoBank Notes	\$ 5,859,418	\$ -	\$ (238,151)	\$ 5,621,267	\$ 245,690
Revenue Bonds, Series 2015	3,200,000	-	(40,000)	3,160,000	45,000
Totals	<u>\$ 9,059,418</u>	<u>\$ -</u>	<u>\$ (278,151)</u>	<u>\$ 8,781,267</u>	<u>\$ 290,690</u>

The annual requirements to amortize the bonds and notes outstanding as of September 30, 2017, including interest payments, are as follows:

Year End September 30,	Principal Payments	Interest Payments	Total
2018	\$ 290,690	\$ 347,950	\$ 638,640
2019	299,855	334,987	634,842
2020	310,290	321,821	632,111
2021	320,007	307,757	627,764
2022	330,013	293,476	623,489
2023-2027	1,819,984	1,236,382	3,056,366
2028-2032	1,988,124	805,656	2,793,780
2033-2037	1,455,304	402,919	1,858,223
2038-2042	420,000	242,393	662,393
2043-2047	484,000	180,328	664,328
2048-2052	557,000	108,908	665,908
2053-2056	506,000	28,344	534,344
Total	<u>\$ 8,781,267</u>	<u>\$ 4,610,921</u>	<u>\$ 13,392,188</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

Plan Description

The District participates as one of 700 plans in the nontraditional, defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). TCDRS is an agency created by the state of Texas and administered in accordance with the TCDRS Act as an agent multiple-employer retirement system for County and District employees in the State of Texas. The Board of Trustees of TCDRS is responsible for the administration and management of the system. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at PO Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the District, within the options available in the state statutes governing TCDRS. Members can retire at age 60 and above with 8 or more years of service or with 30 years regardless of age or when the sum of their age and years of service equals 75 or more. A member is vested after 8 years but must leave his accumulated contributions in the plan. Members who withdraw their personal contributions in a partial lump sum are entitled to any amounts contributed by the employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute.

At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Contributions

The District has elected the annually determined contribution rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually. The District contributed using the actuarially determined rate of 3.86% for the calendar years of 2016 and 2017.

The contribution rate payable by the employee members is 7% as adopted by the governing body of the District. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM (Cont.)

Benefits Provided

TCDRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the District, within the options available in the state statutes governing TCDRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the District-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

	12/31/2016
Inactive Employees Receiving Benefits	0
Inactive Employees	2
Active Employees	14
	<u>16</u>

Net Pension Liability

The District's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.00%
Overall Payroll Growth	0%
Investment Rate of Return	8.00%

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM (Cont.)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 8.00%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2017 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2009 – December 31, 2012 for more details.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return (Geometric)</u>
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities - Developed	10.00%	4.70%
International Equities - Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLPs)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
	<u>100.00%</u>	

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM (Cont.)

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.10%) or 1-percentage point higher (9.10%) than the current rate:

	Discount Rate 7.10%	Discount Rate 8.10%	Discount Rate 9.10%
Net Pension Liability (Asset)	\$ 9,703	\$ 2,621	\$ (3,309)

Changes in Net Pension Liability

The below schedule presents the changes in the Net Pension Liability as of December 31, 2016:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	\$ -	\$ -	\$ -
Changes for the year:			
Service Cost	51,116	-	51,116
Interest on total pension liability	2,030	-	2,030
Change of Benefit Terms	-	-	-
Economic/Demographic gains or losses	44	-	44
Changes of Assumptions	-	-	-
Refund of Contributions	-	-	-
Benefit Payments	-	-	-
Administrative Expense	-	-	-
Member Contributions	-	32,109	(32,109)
Net Investment Income	-	-	-
Employer Contributions	-	17,706	(17,706)
Other	-	754	(754)
Net Changes	53,190	50,569	2,621
Balance at December 31, 2016	\$ 53,190	\$ 50,569	\$ 2,621

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM (Cont.)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained at www.tcdrs.com.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the District recognized pension expense of \$16,682. Also as of September 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Outflows of of Resources	Deferred Inflows Inflows of of Resources
Differences between Expected and Actual Economic Experience	\$ 38	\$ -
Changes in Actuarial Assumptions	-	-
Differences Between Projected and Actual Investment Earnings	-	-
Net difference between projected and Actual Earnings	1,607	-
Contributions Subsequent to the Measurement Date	23,214	-
	<u>\$ 24,859</u>	<u>\$ -</u>

Deferred outflows of resources in the amount of \$23,214 result from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year ended December 31,	
2017	\$ 408
2018	408
2019	408
2020	408
2021	6
Thereafter	7
	<u>\$ 1,645</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE I -- JOINT VENTURE -- CANYON REGIONAL WATER AUTHORITY

The District is a member entity of Canyon Regional Water Authority (CRWA) through a regional taxable water supply contract dated August 1, 1998. CRWA was created to purchase, own, hold, lease and otherwise acquire sources of potable water; build, operate and maintain facilities for the treatment and transportation of water; sell potable water to local governments, water supply corporations and other persons in Texas; to protect, preserve and restore the purity and sanitary condition of water in the area. The participating entities, of which there are 13, are contractually obligated to fund a pro-rata portion of CRWA's operating, debt service and project costs. The District has pledged its system revenues to fund its share of CRWA costs and debts (approximately 7%). For the fiscal year ended September 30, 2017, CRWA reported assets of \$176 million and liabilities of \$149 million, including bonds payable of \$145 million. Annual required funding payments are recorded as water purchases.

In addition, CRWA is a member of Alliance Regional Water Authority under a similar arrangement. In 2014, the District agreed to reimburse CRWA for 53.52% of CRWA's share of Alliance in exchange for the future water developed by Alliance. The agreement required the District to fund the annual requirements in addition to the past costs incurred by CRWA in relation to the Alliance project. The District makes regular contributions for annual funding, but is not required at this time to make payments on the prior costs, which are recognized as a liability on the Statement of Net Position in the amount of \$1,821,238. In November 2015, Alliance issued bonds in the amount of \$7.49 million, of which the District is obligated for approximately \$2.1 million.

Furthermore, the District entered into a reservation agreement with a development neighboring the District's CCN. The reservation agreement reserves a 20.191% of the District's 53.52% of the Alliance responsibility and benefits. The development is billed monthly their share of the costs resulting from the Alliance project as a reservation fee.

NOTE J -- LITIGATION

The District is subject to various claims regarding water and land rights. If decided adversely to the District, none of them are expected to have a significant impact on these financials.

NOTE K -- SUBSEQUENT EVENT

In October, 2017, the District issued Combination Water and Sewer System Revenue Bonds, Series 2017 for \$15 million to fund system improvements. The bonds mature serially through December 1, 2042 and bear interest at rates ranging from 0.2% to 2.33%.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE L -- PRIOR PERIOD ADJUSTMENT

The District recorded a prior period adjustment to correct the following beginning balances:

Beginning Net Position, Previously Reported	\$ 14,295,764
Unrecorded Unbilled Receivable	525,157
Unrecorded Payable to CRWA	<u>(1,821,238)</u>
Beginning Net Position, Restated	<u>\$ 12,999,683</u>



REQUIRED SUPPLEMENTARY INFORMATION

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget- Positive (Negative)
Operating Revenues:				
Water Sales	\$ 6,367,449	\$ 6,261,402	\$ 6,590,266	\$ 328,864
Waterwater Charges	29,165	21,000	29,904	8,904
Other Charges	284,420	91,200	163,698	72,498
Total Operating Revenues	<u>6,681,034</u>	<u>6,373,602</u>	<u>6,783,868</u>	<u>410,266</u>
Operating Expenses:				
Personnel	1,085,513	1,201,720	1,061,422	140,298
Insurance	52,188	78,187	53,115	25,072
Professional Fees	456,000	685,700	874,215	(188,515)
Admin Expenses	263,400	283,500	333,568	(50,068)
Operations and Maintenance	795,904	1,324,404	1,531,186	(206,782)
Vehicles and Equipment	70,200	71,500	67,264	4,236
Utilities	237,000	151,200	125,982	25,218
Water Purchase	1,800,077	1,732,200	1,609,122	123,078
Depreciation	500,000	500,000	602,968	(102,968)
Total Operating Expenses	<u>5,260,282</u>	<u>6,028,411</u>	<u>6,258,842</u>	<u>(230,431)</u>
Operating Income (Loss)	<u>1,420,752</u>	<u>345,191</u>	<u>525,026</u>	<u>179,835</u>
Non-Operating Revenues (Expenses):				
Interest Income	6,000	4,200	2,899	(1,301)
Capital, Reservation and Installation Fees	605,237	979,123	1,243,828	264,705
Gain on the Sale of Property and Equipme	-	-	16,000	16,000
Interest Expense	(700,032)	(711,606)	(362,435)	349,171
Other Expenses	-	-	(305)	(305)
Non-Operating Revenues (Expense)	<u>(88,795)</u>	<u>271,717</u>	<u>899,987</u>	<u>628,270</u>
Net Income	<u>\$ 1,331,957</u>	<u>\$ 616,908</u>	<u>\$ 1,425,013</u>	<u>\$ 808,105</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
FOR THE PLAN YEAR ENDED DECEMBER 31, 2016

Total Pension Liability	
	2016
Service Cost	\$ 51,116
Interest (on the Total Pension Liability)	2,030
Changes of Benefit Terms	-
Difference between Expected and Actual Experience	44
Change of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	-
Net Change in Total Pension Liability	53,190
Total Pension Liability - Beginning	-
Total Pension Liability - Ending	\$ 53,190

Plan Fiduciary Net Position	
	2016
Contributions - Employer	\$ 17,706
Contributions - Employee	32,109
Net Investment Income	-
Benefit Payments, Including Refunds of Employee Contributions	-
Administrative Expense	-
Other	754
Net Change in Plan Fiduciary Net Position	50,569
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending	\$ 50,569

Net Pension Liability - Ending	\$ 2,621
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.07%
Covered Employee Payroll	\$ 458,699

The District began participating in the plan in 2016. Information will be accumulated until ten years is presented.

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
LAST TWO FISCAL YEARS

Fiscal Year Ending September 30,	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions As Percent of Payroll
2017	\$ 17,706	\$ 17,706	\$ -	\$ 458,699	3.86%
2016	11,039	11,039	-	285,984	3.86%

Valuation Timing:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	20.0 years (based on contribution rate calculated in 12/31/16 valuation)
Asset Valuation Method	5 Year Smoothing Period
Inflation	3.00%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP - 2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

The District began participating in the plan in 2016. Information will be accumulated until ten years is presented.

SUPPLEMENTARY INFORMATION

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

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TSI-1. SERVICES AND RATES
FISCAL YEAR ENDING SEPTEMBER 30, 2017

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

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

2. Retail Service Providers

Retail Rates for a 5/8" Meter

	Minimum Charge	Minimum Usage	Flat Rate	Rate per 1,000 Gallons Over Minimum	Usage Level
Water	\$ 50.91	N/A	No	\$ 5.09	0 to 5,000
				\$ 5.60	5,000 to 10,000
				\$ 6.66	10,000 to 20,000
				\$ 8.54	20,000 to 50,000
				\$ 10.45	Over 50,000
Wastewater	\$ 33.64	N/A	No	\$ 2.66	0 to 5,000
				\$ 2.92	Over 5,000
Surcharge	\$ -			\$ -	

District employs winter averaging for wastewater usage? No

Total Charges per 10,000 gallons usage:

Water	\$ 109.58
Wastewater	\$ 64.62

Water and Wastewater Retail Connections

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	0	0	1.0	0
<=3/4"	6,059	5,086	1.0	5,086
1"	42	12	2.5	30
1 1/2"	1	1	5.0	5
2"	42	14	8.0	112
3"	2	0	15.0	0
4"	14	0	25.0	0
6"	15	9	50.0	450
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	6,175	5,122		5,683
Total Wastewater	78	78	1.0	78

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TSI-1. SERVICES AND RATES (CONTINUED)
FISCAL YEAR ENDING SEPTEMBER 30, 2017

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

Gallons pumped into system	674,995,732		Water Accountability Ratio: (Gallons billed/Gallons pumped)
Gallons billed to customers:	500,673,438		76%

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

Does the District have Debt Service standby Fees? Yes ☐ No ☒

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

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

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

5. Location of District:

Counties in which the District is located: Guadalupe, Comal, Hays

Is the District located entirely within one county? Yes ☐ No ☒

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

Cities in which the District is located: San Marcos, Seguin, New Braunfels

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

ETJs in which the District is located: San Marcos, Seguin, New Braunfels

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

If Yes, by whom? _____

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TSI-2. ENTERPRISE FUND EXPENSES
FISCAL YEAR ENDING SEPTEMBER 30, 2017

Personnel Expenditures (including benefits)	\$	1,061,422
Professional Fees:		
Legal		269,935
Engineering		278,318
Accounting and Audit		19,700
Other		306,262
Water and Transmission Costs		1,609,122
Utilities		125,982
Repairs and Maintenance		1,598,450
Administrative Expenses		386,683
Depreciation and Amortization		602,968
Interest		362,435
Other		305
Total Expenses	\$	<u>6,621,582</u>
Total number of persons employed by the District	Full-Time	<u>16</u>
	Part-Time	<u>0</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TSI-3. TEMPORARY INVESTMENTS
FISCAL YEAR ENDING SEPTEMBER 30, 2017

<u>Funds</u>	<u>Identification of Certificate 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	26974	0.25%	10/29/2017	\$ 50,178	\$ -
Certificate of Deposit	26975	0.40%	10/29/2017	99,749	-
Certificate of Deposit	53395	0.80%	4/2/2018	150,000	-
Certificate of Deposit	4000212	0.35%	11/1/2017	100,010	-
Certificate of Deposit	26140	0.65%	12/18/2017	100,000	-
Certificate of Deposit	4000176	0.25%	1/5/2018	40,000	-
Total				<u>\$ 539,937</u>	<u>\$ -</u>

The following section has been omitted since it does not pertain to this entity:

TSI-4. Taxes Levied and Receivable

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2017

Combination Water and Sewer Revenue Refunding Bonds, Series 2015				
Fiscal Year Ending September 30,	Principal Due Each Year	Interest Due Each Year	Total	
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	50,000	81,044		131,044
2023	52,000	79,642		131,642
2024	53,000	78,410		131,410
2025	55,000	76,680		131,680
2026	56,000	75,187		131,187
2027	58,000	73,620		131,620
2028	60,000	72,192		132,192
2029	61,000	70,334		131,334
2030	63,000	68,629		131,629
2031	65,000	66,869		131,869
2032	67,000	65,229		132,229
2033	69,000	63,184		132,184
2034	71,000	61,259		132,259
2035	73,000	59,279		132,279
2036	75,000	57,398		132,398
2037	77,000	55,154		132,154
2038	79,000	53,009		132,009
2039	82,000	50,796		132,796
2040	84,000	48,643		132,643
2041	86,000	46,176		132,176
2042	89,000	43,770		132,770
2043	91,000	41,295		132,295
2044	94,000	38,854		132,854
2045	97,000	36,125		133,125
2046	100,000	33,416		133,416
2047	102,000	30,639		132,639
2048	105,000	27,865		132,865
2049	108,000	24,864		132,864
2050	111,000	21,853		132,853
2051	115,000	18,746		133,746
2052	118,000	15,580		133,580
2053	121,000	12,256		133,256
2054	125,000	8,873		133,873
2055	128,000	5,395		133,395
2056	132,000	1,820		133,820
	<u>\$ 3,160,000</u>	<u>\$ 2,001,773</u>	<u>\$</u>	<u>5,161,773</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
FISCAL YEAR ENDING SEPTEMBER 30, 2017

	USDA Series 2015	Total
Interest Rate	2.75%	
Dates Interest Payable	Jun 1; Dec 1	
Maturity Dates	12/1/2055	
Beginning Bonds Outstanding	\$ 3,200,000	\$ 3,200,000
Bonds Sold During the Year	-	-
Bonds Retired During the Year	(40,000)	(40,000)
Ending Bonds Outstanding	<u>\$ 3,160,000</u>	<u>\$ 3,160,000</u>
Interest Paid During the Year	<u>\$ 31,825</u>	<u>\$ 31,825</u>
Paying Agent's Name	USDA	
City	Seguin, TX	
<i>Bond Authority</i>		
Amount Authorized by		
The Board of Directors	\$ 3,200,000	\$ 3,200,000
Amount Issued	<u>3,200,000</u>	<u>3,200,000</u>
Remaining to be Issued	<u>\$ -</u>	<u>\$ -</u>
Debt Service Cash and Investments as of September 30		<u>\$ 139,992</u>
Average Annual Debt Service		<u>\$ 132,251</u>

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
FISCAL YEAR ENDING SEPTEMBER 30, 2017

	<u>2015*</u>	<u>2016*</u>	<u>2017</u>
Operating Revenues:			
Water Sales	\$4,768,387	\$4,357,605	\$6,590,266
Wastewater Charges	-	4,764	29,904
Other Charges	88,837	121,604	163,698
Total Operating Revenues	<u>4,857,224</u>	<u>4,483,973</u>	<u>6,783,868</u>
Operating Expenses:			
Personnel	880,641	719,587	1,061,422
Insurance	39,707	29,461	53,115
Professional Fees	677,641	809,393	874,215
Admin Expenses	207,889	209,177	333,568
Operations and Maintenance	889,977	429,316	1,531,186
Vehicles and Equipment	79,862	49,707	67,264
Utilities	204,775	112,539	125,982
Water Purchase	1,545,299	1,045,458	1,609,122
Depreciation	494,499	434,683	602,968
Total Operating Expenses	<u>5,020,290</u>	<u>3,839,321</u>	<u>6,258,842</u>
Operating Income (Loss)	(163,066)	644,652	525,026
Non-Operating Revenues (Expenses):			
Interest Income	7,106	3,841	2,899
Capital, Reservation and Installation Fees	324,746	2,157,661	1,243,828
Gain on the Sale of Property and Equipment	-	-	16,000
Interest Expense	(274,778)	(246,227)	(362,435)
Other Expenses	-	(54,265)	(305)
Total Non-Operating Revenues (Expenses)	<u>57,074</u>	<u>1,861,010</u>	<u>899,987</u>
Change in Net Position	<u>\$ (105,992)</u>	<u>\$2,505,662</u>	<u>\$1,425,013</u>

**2015 figures represent a calendar year and 2016 figures represent nine months. The District was created in 2015 and information will be accumulated until five years are presented.*

Percent of Total Revenues		
2015*	2016*	2017
98.2%	97.2%	97.1%
0.0%	0.1%	0.4%
1.8%	2.7%	2.4%
100.0%	100.0%	100.0%
18.1%	16.0%	15.6%
0.8%	0.7%	0.8%
14.0%	18.1%	12.9%
4.3%	4.7%	4.9%
18.3%	9.6%	22.6%
1.6%	1.1%	1.0%
4.2%	2.5%	1.9%
31.8%	23.3%	23.7%
10.2%	9.7%	8.9%
103.4%	85.6%	92.3%
-3.4%	14.4%	7.7%
0.1%	0.1%	0.0%
6.7%	48.1%	18.3%
0.0%	0.0%	0.2%
-5.7%	-5.5%	-5.3%
0.0%	-1.2%	0.0%
1.2%	41.5%	13.3%
-2.2%	55.9%	21.0%

CRYSTAL CLEAR SPECIAL UTILITY DISTRICT
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
FISCAL YEAR ENDING SEPTEMBER 30, 2017

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

Entity Business Telephone Number: 830-372-1031

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

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

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid* 9/30/17	Expense Reimbursements 9/30/17	Title at Year End
Board of Trustees:				
Don Bosworth	7/14-12/18	---	---	President
Jack Carson	11/08-12/19	---	---	Vice President
Amy Galle	1/16-12/18	---	---	Secretary
Mike Cox	1/11-12/19	---	---	Treasurer
Dr James Davidson	9/14-12/19	---	---	Director
Madelyn Patlan	9/15-12/19	---	---	Director
Richard Hanz	2/77-12/17	---	---	Director

Administrative Personnel:

Mike Taylor	5/1/2013	\$ 108,060	\$ -	Gen. Manager
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Consultants:

Kent Fortner	\$ 8,721	Accounting
M&S Engineering	\$ 369,619	Engineer
Rick C. Reed & Co., PLLC	\$ 17,950	Auditor
The Terrill Firm	\$ 152,826	Attorney
Texas Land & Right of Way Company	\$ 328,190	ROW Agent

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

COMPLIANCE SECTION



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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Crystal Clear Special Utility District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Crystal Clear Special Utility District as of September 30, 2017 and for the year then ended, 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 22, 2018.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

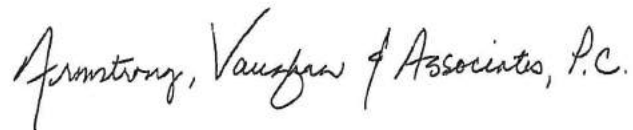
Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

We noted certain matters that we have reported to management of Crystal Clear Special Utility District in a separate letter dated January 22, 2018.

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.



Armstrong, Vaughan & Associates, P.C.

January 22, 2018



