

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended
December 31, 2016



Johnson County Special Utility District

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www.jcsud.com

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Year Ended
December 31, 2016

***JOHNSON COUNTY
SPECIAL UTILITY DISTRICT***

Issued By
Accounting Department
Kathy Rice, Controller
Cleburne, Texas

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2016

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INTRODUCTORY SECTION

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF: JOHNSON }

I, _____
(Name of Duly Authorized District Representative)

of the Johnson County 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 Directors on the 18th day of April, 2017, its annual audit report for the fiscal year ended December 31, 2016 and the copies of the annual audit report have been filed in the District office, located at 2849 Hwy 171 South, Cleburne TX 76031.

The 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.

Date: _____, 20__

By: _____
(Signature of District Representative)

(Typed Name and Title of above District Representative)

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

(Seal)

(Signature of Notary)

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



Johnson County Special Utility District

"Quality and Service since 1965"

April 18, 2017

President Tommy Webb & Board of Directors
Johnson County Special Utility District
2849 S. Hwy 171
Cleburne, TX 76031

Dear Reader:

A comforting thought arises as 2017 begins. Reservoirs in north central Texas continue to remain nearer to full levels. A string of drought years had everyone worried until it ended in 2015 with a record rainfall at 74 inch; which was about twice as much as the normal annual rainfall. Amid Cleburne's 37 inch average in 2016 we were blessed with about 45 inches of rain. Last year's report described 2015's weather as "twisted" since twice the average rain fall fell on both sides of a hot and dry summer. In 2016 we had 22% more rainfall as compared to the average. Usually during a wet year, water-sales is markedly less than budgeted. However this was not the case because the District did well to meet its budgeted projection for utilities collection in a record rainfall year followed by another wet year in 2016.

Every year management submits an annual financial report of the Johnson County Special Utility District (District). This documents the fiscal year ending December 31, 2016. This report provides the Board of Directors and the public with comprehensive reliable financial information about the District. The District's accounting department has prepared the annual financial report in accordance with generally accepted accounting principles (GAAP). Responsibility for both accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District management. We believe the data as presented, is accurate in all material respects and that it is presented in a manner designed to fairly state the financial position and highlight the major initiatives of the operations of the District.

Financial statements for the fiscal year ending in 2016 have been audited by Yeldell, Wilson, Wood & Reeve, P.C., a firm of licensed certified public accountants. The independent auditors concluded based on the audit, that there was a reasonable basis for rendering an unmodified opinion and that the financial statements for 2016 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the Financial Section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A. The District's MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE DISTRICT - A Look Back While Moving Forward

In 1965, the Johnson County Water Supply Corporation organized and chartered under state statutes as a non-profit corporation, much like many others of its kind in Texas during this era. The beginnings of these rural water suppliers arose throughout the country and were funded through loans from the Farmers Home Administration. The system began with 305 users and served a genuine need in supplying drinking water to the rural community. In 1972, the West Prairie Water Supply Corporation in the northern portion of the County was merged into the existing system. The merger of these two entities into one was named the Johnson County Rural Water Supply Corporation. In 1977, the Nolan River Water Supply Corporation in the southern portion of the County also merged with the Corporation. This public water supplier with such humble beginnings is steadily evolving into much more as time and growth progresses in Johnson County.

The summer of 1980 was a record year of heat with 69 days over 100 degrees. 4,500 thirsty connections strained the sole-source well water supply. The Corporation's problem to adequately supply during this severe drought prompted a moratorium on new connections pending improved facilities and acquiring additional water capacity. The Corporation drilled a few more wells but also started a search for a surface water source. They began discussions with the Brazos River Authority in the mid 80's and various studies supported a viable option to treat water from Lake Granbury and construct a 24-mile transmission line to reach the need. Partnering with the Brazos River Authority (BRA) triggered a bond issue to fund the construction of the Surface Water and Treatment System (SWATS) with an initial treatment capacity of 3.5 million gallons per day (MGD). Finally in 1988, Johnson County began receiving treated surface water from Lake Granbury. The Corporation was the largest user (6,400 connections) of the plant. Johnson County Fresh Water District, Acton Municipal Utility District (AMUD) and the City of Granbury also contracted to receive treated water. The SWATS plant is equipped with desalinization facilities to remove the salt which naturally exists in the upper basin of the Brazos River. In 1999, the SWATS plant capacity was increased to 5 MGD. Soon after, the SWATS participants agreed to consider expanding the plant to 15 MGD. A couple of years and \$30 million later, the SWATS plant expansion project was complete.

The 90's proved to be *the* decade of growth. In this interval an average annual 355 new connections came on to the system. It was also the most trying of times in meeting the peak season demand. The District struggled to keep up with constructing new system improvements to stay ahead of the new growth. However, from '99 to 2009 five elevated storage tanks were added, along with many miles of 24", 20", 18", 16", and 12" transmission lines.

BIG CHANGES IN THE NEW MILLENNIUM

In 2000, the system was serving 10,200 connections. The Board of Directors voted to convert Johnson County Rural Water Supply Corporation to a special utility district (SUD). Converting to a SUD allows water supply corporations to become a political subdivision. Benefits include being sales tax-exempt and eligible to participate in the state-sponsored insurance risk pool (TML) rather than paying higher private-sector liability insurance premiums. The largest cost-savings comes for governmental entities issuing tax-exempt bonds to fund capital projects. Finally in 2004, the Texas legislature approved the conversion and the organization began operating as the Johnson County Special Utility District (referred to as the District or JCSUD).

For many years the Joshua area was served by the Johnson County Fresh Water Supply District #1 (FWD for *freshwater district*). In 2005 the JCSUD staff had been approached to consult with the FWD as they were going through several years of tough economic times and mismanagement. The effort here was to help the FWD officials regain best management practices and streamline cost. It led to discussions in measuring the merit of the FWD to consolidate the two systems. The next year, the FWD approved a resolution to conjoin with JCSUD and an application was made with the State to consummate the merger. In April 2007, the District began managing the day-to-day operation of the FWD. Merging the Joshua area water system with JCSUD helped to better maintain stable rates among all the domain of ratepayers which now totaled 14,738.

Looking back today, this merger event was the first giant step which foreshadowed a major transition of ownership and management of the SWATS plant on Lake Granbury. Over the next five years, the climate of relationships grew stressful among the SWATS participants and the Brazos River Authority. It was spurred on by rising treatment costs and BRA's recent legal battle over lost treatment capacity due to major failure of SWATS desalinization equipment. Until now Brazos basin water from the SWATS desalinization plant had been the District's only surface water source. The District's best strategy was to seek an alternative source. Dialog with the City of Mansfield began in 2005. After much discussion and engineering studies, four years later JCSUD was able to contract with Mansfield for 9 MGD over a 20-year term. The next year in 2010, another supply of 6 MGD was landed with a 40-year term water purchase agreement from the City of Grand Prairie. Securing water purchase agreements with the Cities of Mansfield and Grand Prairie for Trinity basin supplies was a milestone event to obtain a new primary source and to utilize SWATS water for peaking needs. It cleared a path to a brighter future to utilize this new source besides the Brazos River saline water supply.

ENTER THE BRAZOS REGIONAL PUA

2012 was quite a mile-marker year in the life of the District. The SWATS project which once served five municipal supplies was favorably reduced to only two. The ownership and management transferred from the Brazos River Authority to a newly created Brazos Regional Public Utility Agency (PUA). Only two owner-entities created and sustain the Brazos Regional Public Utility Agency today – JCSUD and AMUD. The five-member governing body of the PUA are also Board members of the sponsors. In this transition Granbury decided it worked best to construct their own treatment plant. Also, the City of Keene agreed to become a direct wholesale customer to JCSUD.

The Brazos Regional PUA has proven to be a great improvement as the new organization of record which provides more favorable results to the two owners/sponsors it serves. Having sources in both the Trinity and Brazos basin to draw from affords the District an extra measure of safety if and when one supplier has to suspend service.

WHOLESALE WATER PROVIDER

In the last 20 years, the number of connections has doubled to some 15,750 households today; an estimated 43,000 in population. Besides these retail connections, the District takes on a greater role as a regional wholesale water provider. The City of Alvarado, Keene, Bethany Special Utility District, and Monarch Utilities (each serving over 1,000 connections) have wholesale water contracts with the District for long-term water supply needs. The City of Joshua and the Lillian community looks to JCSUD as their water provider. Recently the City of Grandview, Rio Vista, and Godley expressed an interest to obtain supply capacity to supplement the depleting well water source. The City of Cleburne is currently developing a take-point pump station near the District's transmission line. In part, this effort demonstrates Cleburne's interest to become a wholesale customer for the purchase of 3 MGD within the next few years.

WATER SUPPLY AND DISTRIBUTION

The District contracts with the Brazos Regional PUA to have 7.2 MGD through the SWATS plant on Lake Granbury. In addition, the District water well supply varies from year to year; but more recently accounts for supplying around 1.5 MGD. Wholesale water contracts are in place with the City of Mansfield for 9 MGD and with the City of Grand Prairie for 6 MGD.

Johnson County is in the Region G Water Planning Area. In the 2016 Water Plan, JCSUD is projected to have surplus up to about 2060. The 2016 Plan accounts for JCSUD's projected retail supply needs, combined with the projected wholesale supply demand. The 2060 projected total supply demand of 14,681 acre ft. compares to the JCSUD's total treated water supply capacity in 2060 to be 14,002 acre ft. It also lists all 25 wholesale suppliers in the Region G planning area and JCSUD by far is positioned best for having an abundant surplus supply in the 2040 decade.

The system has about 867 miles of distribution pipeline and 46 miles of transmission lines and is divided into 15 separate pressure planes. The District operates 7 elevated storage tanks with a combined total of 5 million gallons in the system. The water CCN (certificate of convenience and necessity) service area of the District is approximately 320 square miles; predominately in Johnson County, but also serving in Tarrant, Hill and Ellis counties.

WASTEWATER COLLECTION AND TREATMENT FACILITIES

The District took ownership and operation of the Joshua wastewater collection and treatment facilities (permit # WQ0014350001) in 2007 from Johnson County Freshwater Supply District #1. The collection system has about 1,900 connections serving in and around the City of Joshua and a small portion within the Burleson city limits. This small system is uniquely challenged as it straddles the basin divide line between the Trinity River and Brazos River water shed areas. The District operates 8 lift stations among nearly 46 miles of sewer mains in this collection system. In 2013 the District completed improvements to the treatment plant which ramps up the discharge limit to .792 million gallons per day. Treatment method includes influent screening for two aeration basins, four clarifiers, three on-site lift stations and a chlorine contact basin. Treated effluent discharges into the "un-named" tributary which converges downstream with Village Creek that eventually flows into Lake Arlington. In 2017, TCEQ is expected to approve the District's permit request to expand its discharge volume to 800K gal/day.

ECONOMIC INDICATORS including DFW

The U.S. economy in 2016 was described as being choppy, prompted by the disruption from global events rather than U.S. domestic conditions. Global markets were agitated by oil price volatility, currency upheaval and plunging stock prices in some global markets. The European Union continued to experience stresses among its members that culminated with the United Kingdom voting to remove itself from the union in the historic vote that would come to be known as the “Brexit Vote.” As these events have played out, the U.S. Dollar has increased in value and has constrained demand for U.S. exports (as prices for U.S. goods increased abroad). Global turmoil and terrorism battles have strained trading alliances. All of this put pressure on the U.S. economy and kept growth contained throughout the year. U.S. GDP grew 1.4% in the final quarter of calendar year 2015, but had a much weaker growth rate of 0.8% for the first quarter of 2016 before rising 1.4% during the second quarter.

Interest Rates: The Federal Open Market Committee (FOMC) remained on the sidelines after raising the Federal Funds Rate in December 2015. The markets are growing increasingly impatient with the FOMC to raise rates again and expectations are that increases are likely in 2017. The FOMC has stated that their decision will be data dependent, so the markets will continue to be somewhat volatile as speculation of an increase changes day-to-day. In most of 2016 the stock market was volatile during the fiscal year as it reacted to global economic news. But since last November the DOW has rallied and topped the 21,000 mark for the first time. It is likely that the FOMC will begin to raise the Federal Funds Rate and prevent the market from running too hot. In turn this will lead to improved investment rates for JCSUD positions.

The Texas economy continues to perform better than the national economy, but growth slowed during 2016 due in large part to declines in oil prices. The unemployment rate in Texas rose from 4.4% in August 2015 to 4.8% in August 2016. This compares to the current national average of 4.9%. However, since August 2015, Texas has added over 198,000 jobs, representing an increase of 1.6% over this time last year. Dallas led the Texas metros in 2016 job growth at 3.3%. Texas sales tax revenues were \$2.5 billion this year compared to \$2.6 billion last year. Yet, Texas is still enjoying a moderate increase in the housing sector. Latest reports indicate the DFW metro added 92K more jobs which accounted for nearly half of jobs created in the state. DFW shows stronger manufacturing output and higher service sector revenue as well as solid real estate activity. The energy sector continues to show signs of improvements. Overall, the Texas economy shows evidence that 2016’s pickup is set to continue in 2017.

RELEVANT FINANCIAL POLICIES

Cash Management JCSUD maintains financial policies with regards to budget, investments and management, financial audit, debt financing, capital improvement plan, and reserve funds. None of these policies had a significant impact on the current period’s financial statements. Interest rates for investments allowed by JCSUD’s Investment Policy and State Law have risen during the year. Investment Pool rates were 0.40% at the end of December 2016, improved from the 0.19% yield at the end of December 2015. Rates for Certificates of Deposit (CD) were also improved. At the end of December 2016, a one-year CD yielded between .75% and 1.30% as compared to .30% and .75% at the end of December 2015. CDs and other financial institution deposits still remain significantly more attractive than alternative Treasury and Agency positions.

Additional information on the District's cash management activity can be found in Note 3 of the Notes to Financial Statements.

Budgetary Controls The annual budget serves as the basis for the District's financial planning and control. Comparative budget-to-actual expense statements are provided to the Board of Directors on a monthly basis throughout the fiscal year.

Internal Accounting Controls Internal accounting controls are designed to provide reasonable assurance regarding safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. We believe the District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As part of the District's audit, tests were performed of its internal controls and compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a material effect on the District's financial statements. Although it was not an objective of the audit to provide an opinion on the compliance, the results of the test disclosed no material instance of noncompliance related to the audit for the year ended December 31, 2016.

MAJOR ACHIEVEMENTS

20" line from TST to FM 917 - Master Plan Project It was a big sigh of relief to finalize this project to extend 2,836 linear feet of transmission line from the 3 MG storage tank on Brushy Nob Hill west of Joshua to FM 917. A few years prior to 2015 when construction began, it was a worrisome thought contemplating how we would be able to implement this vital project and obtain a good route and acquire the easements in such a congested area as this built-out, older subdivision which wraps around the bottom of a hill surrounding the "crown jewel" pump station of the JCSUD system. It all fell into place seemingly without a hitch. Our operations staff did a fine job to craft a route and worked very well with local residents for their consensus where it was needed. We had a fine engineer to design the work and partner with our key staff to oversee the work through completion of construction totaling \$492K.

Redline Projects Each year meeting the demand to serve more and more connections is a growing challenge. Adding new meters today to the smaller water lines installed decades ago (but seemed adequately sized then) eventually become problematic. About one-third of the system consists of 3-inch and smaller diameter lines. JCSUD maintains a system hydraulic model tool that enables best management practice to predict system parameters based on proposed growth where it is anticipated. Line segments are identified and ranked in accordance with needing to be upsized or replaced. Lines designated as priority are called "redlines." The District's strategy is to replace or supplement existing lines with larger ones as soon as practical. Compared to normal construction projects requiring a higher level of engineering, design, and easement acquisition, the District staff manages redline projects. The preliminary planning work isn't as detailed as the construction of new subdivisions may require. However, the construction phase is outsourced to a selected contractor based on competitive pricing and their ability to perform the work over the course of several projects as long as pricing remains competitive and relatively constant.

Since 2013, the District has made good progress for this category of capital improvements. In 2015 we completed 9,400 linear feet of 8 inch and 12 inch pipe for \$546K. In 2016 some 4,653 linear feet of 6 inch line was installed on CR 305B. Over the last four years redline projects funded through 2016 totals \$1.38 million for about 7.6 miles (comparable to Cleburne courthouse to Joshua City Hall) of 6, 8, and 12 inch pipe. Future projects will be identified, ranked, and scheduled in subsequent years as the Master Plan stipulates.

Community Development Grant Project This wastewater project extended 3,712 feet of 4” and 6” force main (moving sewer uphill to a point where gravity carries it to the treatment plant) and was completed in 2016. The District submitted for this grant application in 2012. In 2014 the District was awarded a \$500,000 grant towards this important improvement project in the Joshua area. The grant was approved through the Community Development Block Grant program as administered by the Texas Department of Agriculture whereby federal HUD dollars are distributed throughout the states. The grant calls for JCSUD’s match to be at least \$55,000 (depending on total construction cost). Upon completion the grant contribution funded 71% of this much needed improvement for JCSUD’s relatively small sewer collection system with only 1,900 connections.

CURRENT INITIATIVES

Grand Prairie Water Supply Contract Transfer to Mansfield JCSUD contracted with the City of Grand Prairie in 2009 for 6 MGD of treated water. This supply capacity volume is JCSUD’s element of “insurance” to meet growth projections beyond 2030. Last year this project was reported as a management strategy to extend a transmission line to a take-point location with Grand Prairie at U.S. Hwy 287 and U.S. Hwy 360. However, after careful thought and collaboration with key contacts from Grand Prairie and Mansfield, this project (estimated \$750K) will be replaced with a better plan. GP has a water purchase agreement with Mansfield to take an additional 6 MGD when JCSUD connects with GP. It works best for JCSUD to gain consensus with GP and Mansfield to “transfer” this same capacity volume directly to JCSUD. In this way, JCSUD would have a (closer) second take-point location with Mansfield and negate the need for extending a longer transmission line to the GP take-point location. To date, both GP and Mansfield are agreeable to make this change. Mansfield and the District have tentatively selected a second take-point location and they are currently reviewing the JCSUD water purchase agreement to eventually incorporate the proper language to commemorate the transfer in a newly updated contract document.

Redline Projects In 2017 the Capital Improvements Program is more robust to schedule five redline projects with a combined estimated cost of \$495K for approximately 22K linear feet of planned 6 and 8 inch pipe.

Relocate District Office/Service-Center Campus In 2012 a building fund account was set up towards the prospect of developing a new campus for a new central office and service center facilities. In January 2014, the District purchased property as the first big step towards this initiative. The current office location at 2849 S. Hwy. 171 was constructed in 1980 on a 5-acre tract in the southern part of the system. At the time, residential service was more populated in this part of Johnson County, mainly south of U.S. Hwy 67. Over the last 35 years, growth has shifted to make the northern half of the system the most dynamic in terms of water utility activities. New connections and capital improvements predominately occur in and around Joshua and the northern portion of the county. Also, the workforce has outgrown the existing work space. Inefficiency associated with workforce travel-time is eliminated in locating the new office/service-center campus to a more central location where the prevailing activity occurs in the system. The good news is that the funding model does not require issuing debt nor adjusting water rates to cover this project. As 2015 marked the 50-year anniversary of this organization's existence, moving ahead towards the next 50 years with a centrally located office complex affords proper amenities and enhances customer service. At the end of 2016, Phase 1 is substantially complete (about 45% of the total project) to have the Service Center and ancillary elements ready for the Operations department to mobilize and occupy in the Q1 2017. It is good to pass along that the building fund amount is sufficient to cover the remaining Phase 2 cost to complete the Administrative Office Building, parking and vehicular circulation for the new complex. Over half of the cost of the new office campus will be funded with non-operating revenues (other sources besides bill collections). Completion is expected mid-2018.

CONCLUSION

In terms of population served, JCSUD is the largest special utility district in the State of Texas. The District's Board of Directors consists of nine members elected at-large by the voting public within the District. Directors serve a 3-year, staggered term, with one-third being replaced or reinstated each year. The General Manager serves as the District's chief executive officer. All of these significant events, historical and current, are worth noting since it ties back to the District's mission. The focus being to appropriately plan for future growth while providing safe drinking water with the least interruption and the most reasonable cost. We as the managing team work to demonstrate our efforts daily; likewise in presenting annually the Consumer Confidence Report and the Annual Financial Report.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Johnson County Special Utility District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2015. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparations of state and local government financial reports. This was the third consecutive year that JCSUD has achieved this prestigious award.


In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement Programs requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report could not be accomplished on a timely basis without the efficient and dedicated endeavors of the Finance Staff and the Independent auditors. We would like to express our sincere appreciation to all employees who contributed to the preparation. We would also like to thank the General Manager and the Board of Directors for their continued support in planning and conducting the financial operations of the District in a responsible and professional manner and for providing the tools and resources to ensure the integrity of the assets of the Johnson County Special Utility District.

A sincere word of "Thanks" goes to the Board of Directors in fulfilling their part as the governing branch; all of us working together with a teamwork spirit gets us farther along. On behalf of the managing staff of the District, we renew our pledge of stewardship to take on the tasks ahead in the continuum of our mission.

Respectfully submitted,



Terry D. Kelley
General Manager



Kathy Rice
Controller / Accounting Manager



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
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Reporting**

Presented to

**Johnson County
Special Utility District
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

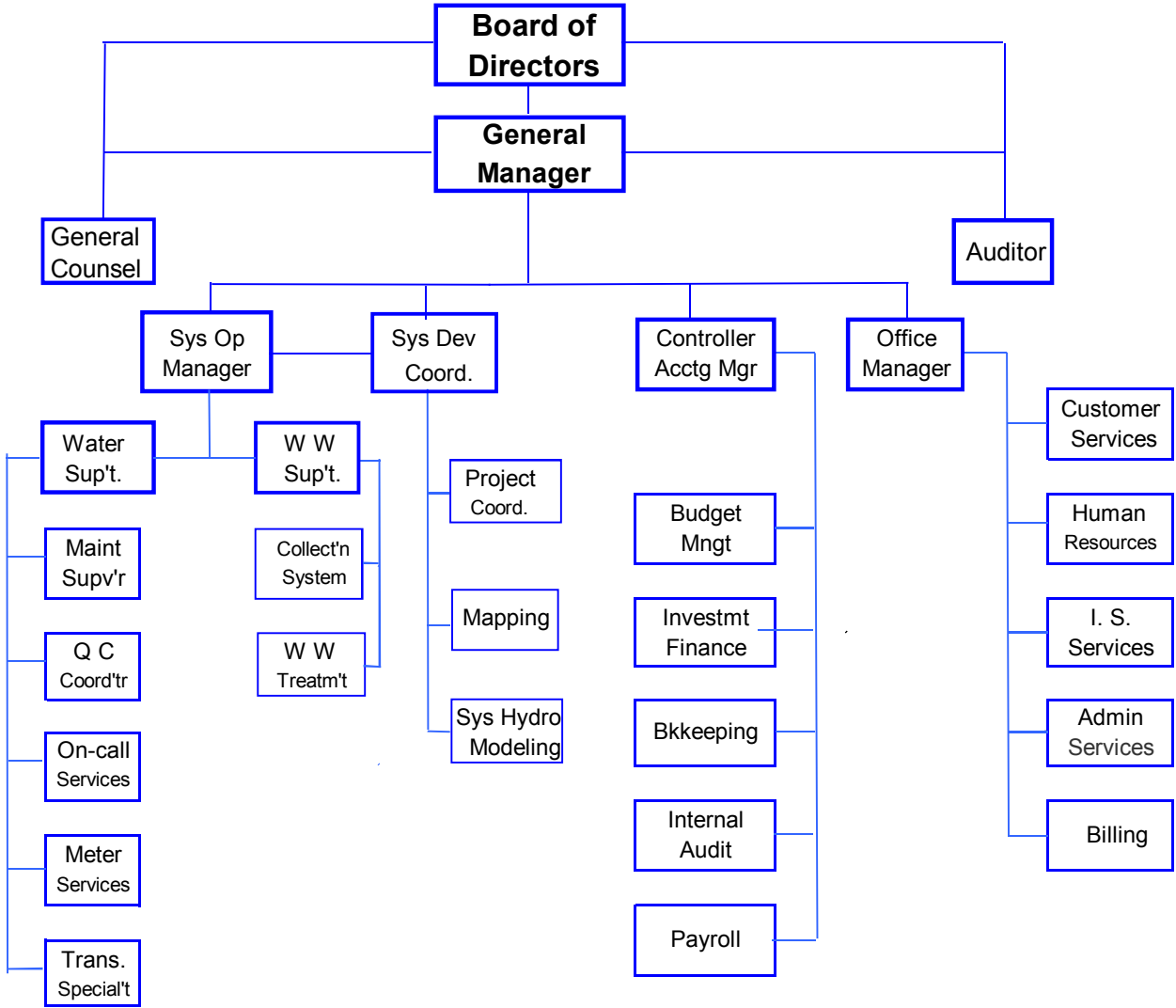
December 31, 2015

Executive Director/CEO



**JOHNSON COUNTY SPECIAL UTILITY DISTRICT
ORGANIZATIONAL CHART**

CONSTITUENCY / CUSTOMERS OF JCSUD



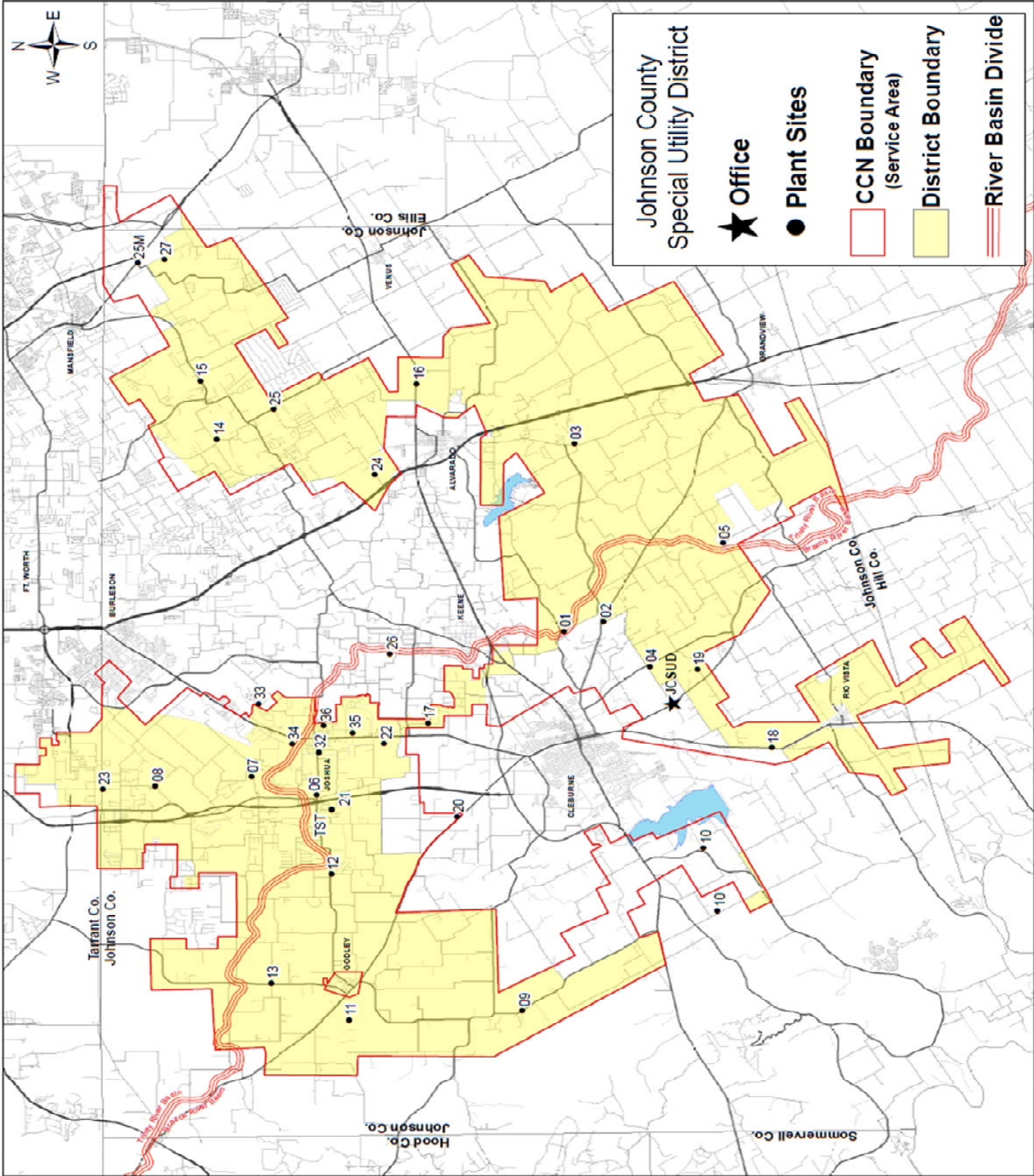
JOHNSON COUNTY SPECIAL UTILITY DISTRICT
BOARD OF DIRECTORS AND MANAGEMENT TEAM
December 31, 2016

BOARD OF DIRECTORS

Tommy Webb	President
Gene Petross	Vice-President
Michael Bowles	Secretary / Treasurer
Harry Shaffer	Assistant Secretary / Treasurer
Jack Beavers	Director
Richard Connally	Director
Martha Dean	Director
OPEN	Director
OPEN	Director

MANAGEMENT TEAM

Terry D. Kelley	General Manager
Ronnie Nichols	System Development Coordinator
Danny Armstrong	System Operations Manager
Shirley Bishop	Office Manager
Kathy L. Rice	Controller



FINANCIAL SECTION



YELDELL, WILSON, WOOD & REEVE, P.C

CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA
Glenda Valek, CPA | Caitlyn Keller, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of
Johnson County Special Utility District
Cleburne, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Johnson County Special Utility District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the Johnson County Special Utility District, as of December 31, 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 on pages 20-24 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 Johnson County Special Utility District's basic financial statements. The introductory section, supplementary financial data, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary financial data 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 financial data is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 April 3, 2017, on our consideration of Johnson County 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 Johnson County Special Utility District's internal control over financial reporting and compliance.

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Waxahachie, Texas
April 3, 2017

JOHNSON COUNTY SPECIAL UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

As Management of the Johnson County Special Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016 with comparison information presented for the year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on Pages 3 to 11 of the Introductory Section of this report.

FINANCIAL HIGHLIGHTS

2016

- Total assets at end of year were \$81,272,085 and exceeded liabilities by \$62,015,232.
- Total net position increased by \$3,802,689 (6.5%).
- Net investment in capital assets increased by \$4,236,891 (9.7%).
- Total long-term liabilities decreased by \$1,509,311 (8.4%).

2015

- Total assets at end of year were \$78,547,061 and exceeded liabilities by \$58,212,543.
- Total net position decreased by \$50,024 (0.1%).
- Net investment in capital assets increased by \$795,563 (1.8%).
- Total long-term liabilities decreased by \$1,439,522 (7.4%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are composed of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements. This report also contains supplementary financial data and statistical information in addition to the basic financial statements themselves.

Basic Financial Statements. The financial statements are designed to provide readers with an overview of the District's finances, in a manner similar to private-sector businesses, using the accrual basis of accounting.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the fiscal year presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net position may serve as an indicator of the effect of the District's current year operation on its financial position.

The *Statement of Cash Flows* summarizes all of the District's cash flows in four categories: operating, noncapital financing, capital and related financing, and investing. The *Statement of Cash Flows*, along with the related notes and information in other financial statements, can be useful in assessing the following:

- The District's ability to generate future cash flows.
- The District's ability to pay its debt as the debt matures.
- Reasons for the difference between the District's operating cash flows and operating income (loss).
- The effect on the District's financial position of cash and non-cash transactions from capital and related financing activities and from investing activities.

The basic financial statements can be found on pages 25-27 of this report.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 28-41 of this report.

Supplementary financial data: This consists of the schedules required by the Texas Commission on Environmental Quality and other schedules of importance to the District. The supplementary financial data can be found on pages 43-53 of this report.

Statistical information: This consists of schedules presenting detailed information as a context for understanding what the information in the management's discussion and analysis, financial statements and note disclosures say about the District's overall financial health. The statistical information can be found on pages 54-69 of this report.

FINANCIAL ANALYSIS OF THE DISTRICT

A large portion of the District’s net position (78%) reflects its investment in capital assets (e.g. land, construction in progress, buildings and building improvements, water distribution system, sewer distribution system, equipment, furniture and fixtures and master plan). The District uses these capital assets to provide service to customers; consequently these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The significant changes in net position between 2016 and 2015 were:

- 1) Change in capital assets:
 - a. Increase is due to the addition of 13 contributed property water projects and one sewer grant project totaling nearly \$2.5 million.
- 2) Decrease in other liabilities of \$1.0M is due to the reduction in principal payments on bonds, with the payoff of our 2011 Bond Issue.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT'S NET POSITION

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 16,926,910	\$ 16,848,902
Capital assets	64,345,175	61,698,159
Total assets	<u>81,272,085</u>	<u>78,547,061</u>
Current liabilities	2,837,149	2,405,503
Long term liabilities	16,419,704	17,929,015
Total liabilities	<u>19,256,853</u>	<u>20,334,518</u>
Net position:		
Net investment in capital assets	48,120,547	43,883,656
Restricted	1,729,039	1,501,144
Unrestricted	12,165,646	12,827,743
Total net position	<u>\$ 62,015,232</u>	<u>\$ 58,212,543</u>

JOHNSON COUNTY SPECIAL UTILITY DISTRICT'S CHANGE IN NET POSITION

	<u>2016</u>	<u>2015</u>
Revenues:		
Operating	\$ 14,417,350	\$ 14,597,747
Nonoperating	903,828	1,038,184
Total revenues	<u>15,321,178</u>	<u>15,635,931</u>
Expenses		
Water purchases	6,156,820	8,265,385
Depreciation and amortization	2,870,202	2,820,344
Other operating	4,594,226	4,447,771
Nonoperating	393,260	427,225
Total expenses	<u>14,014,508</u>	<u>15,960,725</u>
Income (loss) before capital contributed	1,306,670	(324,794)
Capital contributions	<u>2,496,019</u>	<u>274,770</u>
Changes in net position	3,802,689	(50,024)
Net position - beginning	<u>58,212,543</u>	<u>58,262,567</u>
Net position - ending	<u>\$ 62,015,232</u>	<u>\$ 58,212,543</u>

Decrease in Water Purchases expense is due to a refund of \$864K from the Brazos Regional Public Utility Agency for over payment to O&M and Capital improvements plus \$1.4M from a bond that matured.

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2016 amounts to \$64,345,175 (net of accumulated depreciation).

Major capital asset events during the current fiscal year included the following:

- Major additions for each year were for water system improvement projects and equipment.

**Capital Assets at Year End
Net of Accumulated Depreciation**

	<u>2016</u>	<u>2015</u>
Land	\$ 738,726	\$ 738,726
Construction in progress	2,288,925	886,892
Buildings and building improvements	223,793	247,246
Water distribution system	55,128,099	54,353,402
Sewer distribution system	5,292,460	4,769,245
Equipment, furniture and fixtures	658,084	680,920
Master plan	15,088	21,728
	<u>\$ 64,345,175</u>	<u>\$ 61,698,159</u>

Additional information on the District's capital assets can be found in note 3.D on page 36 of this report.

LONG TERM DEBT

At the end of the current fiscal year, the District had total bonded debt of \$16,005,000. The District's bond's are secured solely by the revenues of the District.

**Outstanding Debt at Year End
Bonds Payable**

	<u>2016</u>	<u>2015</u>
Revenue bonds	<u>\$ 16,005,000</u>	<u>\$ 17,495,000</u>

Additional information on the District's long term-debt can be found in note 3.J on pages 39-41 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the 2017 budget, revenues are comparable to 2016 budgeted revenues, with a slight increase in water and sewer revenue. Water and sewer revenues account for 96% of budgeted revenue.

REQUEST FOR INFORMATION

The District's financial statements are designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Controller of Johnson County Special Utility District, P.O. Box 509, Cleburne, Texas 76033-0509.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 11,322,368
Restricted cash and cash equivalents	679,940
Receivables (net of allowance for uncollectibles)	1,290,202
Inventories	333,105
Investments	915,949
Prepaid items	273,079
Total current assets	14,814,643

Noncurrent assets:

Capital assets:

Non-depreciable	3,027,651
Depreciable (net of accumulated depreciation)	61,317,524

Other assets:

Restricted cash and cash equivalents	1,193,623
Equity interest in joint venture	918,644
Total noncurrent assets	66,457,442
Total assets	81,272,085

LIABILITIES

Current liabilities:

Accounts payable	548,704
Accrued expenses	362,144
Accrued payroll payable	80,487
Compensated absences	33,215
Customer deposits payable	1,701,290
Current portion of bonds	749,584
Current liabilities payable from restricted assets:	
Accrued interest payable	144,524
Current portion of bonds	535,416
Total current liabilities payable from restricted assets	679,940
Total current liabilities	4,155,364

Noncurrent liabilities:

Compensated absences	161,861
Bonds payable	14,939,628
Total liabilities	19,256,853

NET POSITION

Net investment in capital assets	48,120,547
Restricted for debt service	1,729,039
Unrestricted	12,165,646
Total net position	\$ 62,015,232

The notes to financial statements are an integral part of this statement.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Year Ended December 31, 2016

OPERATING REVENUES

Water sales	\$ 12,610,422
Sewer service	1,234,598
Penalties	232,984
Installation fees	164,048
Miscellaneous	175,298
Total operating revenues	14,417,350

OPERATING EXPENSES

Water purchases	6,156,820
Personnel services	2,506,633
Repair, maintenance and supplies	659,054
Utilities and communication	662,079
Other	766,460
Depreciation and amortization	2,870,202
Total operating expenses	13,621,248

OPERATING INCOME 796,102

NONOPERATING REVENUES (EXPENSES)

Gain on sale of assets	26,131
Investment earnings	59,017
Other income	180,020
System development fees	638,660
Interest expense	(393,260)
Total nonoperating revenues (expenses)	510,568

INCOME BEFORE CONTRIBUTIONS 1,306,670

Capital contributions 2,496,019

CHANGE IN NET POSITION 3,802,689

TOTAL NET POSITION, BEGINNING 58,212,543

TOTAL NET POSITION, ENDING \$ 62,015,232

The notes to financial statements are an integral part of this statement.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 14,581,583
Payments to suppliers and service providers	(7,871,636)
Payments to employees for salaries and benefits	(2,478,159)
Net cash provided by (used for) operating activities	4,231,788

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Other income	180,020
Net cash provided by (used for) noncapital financing activities	180,020

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(3,521,717)
Capital contributions	500,000
Proceeds from sale of assets	26,650
System development fees	638,660
Principal paid on capital debt	(1,490,000)
Interest paid on capital debt	(418,338)
Net cash provided by (used for) capital and related financing activities	(4,264,745)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	59,017
Purchase of investment	(481,051)
Net cash provided by (used for) investing activities	(422,034)

Net decrease in cash and cash equivalents (274,971)

Cash and cash equivalents January 1 (including \$1,658,021 reported in restricted accounts) 13,470,902

Cash and cash equivalents December 31 (including \$1,873,563 reported in restricted accounts) \$ 13,195,931

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 796,102
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation and amortization	2,870,202
(Increase) decrease in accounts receivable	91,983
(Increase) decrease in inventory	12,565
(Increase) decrease in prepaid items	23,524
Increase (decrease) in accounts payable	24,151
Increase (decrease) in accrued expenses	336,061
Increase (decrease) in accrued payroll	11,536
Increase (decrease) in compensated absences	(6,586)
Net increase in customer deposits	72,250
Total adjustments	3,435,686
Net cash provided by (used for) operating activities	\$ 4,231,788

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Contribution of capital assets \$ 1,996,019

The notes to financial statements are an integral part of this statement.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Johnson County Special Utility District (the District) is a governmental entity created by the 78th Texas Legislature in Senate Bill 5 on June 20, 2003, subject to a confirmation election which was held November 4, 2003. The District operates under Texas Water Code Chapter 65, as amended. The District is a conversion of the former Johnson County Water Supply Corporation and succeeded to all of its assets, liabilities, and operations on November 4, 2003. The Corporation was dissolved January 1, 2004. The District supplies water and sewer services to customers in rural North Texas, primarily in Johnson County.

Accounting principles generally accepted in the United States of America require that this financial statement present the District (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The District does not have any component units that meet these criteria.

As a political subdivision of the State of Texas, the District is exempt from federal income taxes, state and local sales and use taxes, and local real and personal property taxes. The District has no taxing authority.

B. Measurement focus, basis of accounting, and basis of presentation

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Government entities included: All activities over which the Board of Directors exercises control and has fiscal responsibility and control are included in the financial statements.

Fund accounting: The accounts of the District are organized on the basis of funds. The District has a single fund - the water and sewer fund. It is an enterprise fund, which is a proprietary fund type. An enterprise fund is used to account for operations (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees charged from the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation and debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation and debt service).

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement focus, basis of accounting, and basis of presentation (continued)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted for debt service; and unrestricted components.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operation. The principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. Assets, liabilities, and net position

1. Cash and cash equivalents

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

2. Investments

Investments maturing more than three months from the date acquired are classified as investments held to maturity. Investments for the District are reported at fair value.

3. Restricted assets

Certain resources set aside for the repayment of the District's bonds are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond reserve" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, liabilities, and net position (continued)

4. Receivables

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivables in excess of one hundred twenty days comprise the trade accounts receivable allowance for uncollectibles.

5. Inventory and prepaid items

Inventories of parts and supplies are stated at cost, determined substantially by the first-in first-out method. These inventories are used for repairs and maintenance of the water distribution and sewer collection systems and are available for sale to customers. The utilization of the supplies is recorded as a repair and maintenance expense of the water and sewer system. Obsolete supplies are also written off to repairs and maintenance of the system.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

6. Capital assets

Capital assets are recorded at cost. Assets acquired through gifts or donations are recorded at their estimated fair market value at the time of acquisition and depreciated in the same manner as purchased assets. Furniture and fixture assets with a cost of \$1,000 or more and a useful life greater than three years will be capitalized. All other assets with a cost of \$10,000 or more and a useful life greater than three years will be capitalized. Maintenance and repairs are charged to expense as incurred and major replacements and improvements are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. There was no interest capitalized during the year.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings and building improvements	5-40
Water distribution system	5-40
Sewer distribution system	5-40
Equipment, furniture and fixtures	3-20
Master plan	5

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, liabilities, and net position (continued)

7. *Compensated absences*

The District offers employees a leave benefit program known as Paid Time Off (PTO). Under this policy, all employees may draw upon their accrued PTO days for vacation, sick leave, medical appointments, family illnesses or personal leave issues. PTO is accrued when earned.

8. *Long-term liabilities*

Bonds payable are reported at face value, net of applicable premiums and discounts. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

9. *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 bonds or other 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. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

1. *Budgetary basis of accounting*

The District's annual budget is adopted on an accrual basis of accounting. The legal level of budgetary control is the fund level.

2. *Compliance with finance related legal and contractual provisions*

The District has no material violation of finance related legal and contractual provisions, including the Texas Public Funds Investment Act.

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES

A. Deposits and investments

1. *Deposits*

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a fair value of not less than the principal amount of the deposits. At year-end, the District's bank balance was \$1,585,356, of which \$1,445,750 was covered by federal depository insurance. The remaining uninsured balance of \$139,606 was covered by collateral pledged in the District's name. The collateral was held in the District's name by the safekeeping departments of the pledging bank's agent and had a fair value of approximately \$2,600,000.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

A. Deposits and investments (continued)

2. Investments

The Texas Public Funds Investment Act (Government Code Chapter 2256) requires a governmental entity 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.

Per the District's investment policy, public funds of the District may be invested in (1) obligations of the United States Government, its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities; (5) certificates of deposit which are fully FDIC insured or collateralized from a depository institution doing business in the State of Texas; (6) no-load Money Market Mutual Funds; (7) Texas Local Government Investment Pools.

As of December 31, 2016, the government had the following investments:

Investment Type	Weighted Average Maturities (in days) - December 31, 2016				
	Total	Less than			
		30	31-60	61-90	91-180
Investment Pools:					
LOGIC	\$ 434,407	\$ -	\$ 434,407	\$ -	\$ -
Texas DAILY	330,140	-	330,140	-	-
TexPool	2,243,793	-	-	2,243,793	-
TexSTAR	9,509,713	-	9,509,713	-	-
Money Market	5,058	5,058	-	-	-
C.D.'s	1,193,093	277,145	252,130	-	663,818
Total	<u>\$ 13,716,204</u>	<u>\$ 282,203</u>	<u>\$ 10,526,390</u>	<u>\$ 2,243,793</u>	<u>\$ 663,818</u>

In addition, the District's policy sets a maximum maturity of five years on its investments, with no more than 20% of the portfolio extending beyond three years.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

A. Deposits and investments (continued)

Interest rate risk. In accordance with its investment policy, the District manages its interest rate risk by spreading the fair value of its investments, excluding stock, over varying maturities. Although funds held in the investment pools are available on demand, the weighted average maturities reflected above for these pools are the maturities of the underlying securities held by the pools.

Credit risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in public funds investment pools and money market funds to those that are rated at least AAA-. As of December 31, 2016, the District's investments in pools and money markets were all rated AAAM by Standard & Poor's. The fair value of the District's position in these pools is the same as the value of the pool shares.

Financial statement presentation. Of the investment balances shown above, \$12,800,256 as of December 31, 2016 were considered cash equivalents.

The local government investment pools are managed conservatively to provide safe, efficient and liquid investments to Texas governmental entities. The pools seek to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

LOGIC is co-administered by JPMorgan Investment Management, Inc. and First Southwest Company. The fair value of funds in LOGIC is also the same as the value of the LOGIC shares.

Texas DAILY is administered by PFM Asset Management, LLC. The fair value of funds in Texas DAILY is also the same as the value of the Texas DAILY shares.

The daily operations of TexPool are managed by Federated Investors under a contract with the State Comptroller of Public Accounts. The state comptroller maintains oversight responsibility for TexPool including the ability to influence operations, designation of management and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net position to compute share price. The fair value of the District's position in TexPool is the same as the value of TexPool shares.

TexSTAR is co-administered by JPMorgan Investment Management, Inc. and First Southwest Company. The fair value of funds in TexSTAR is also the same as the value of the TexSTAR shares.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

B. Restricted assets

The balances of the restricted asset accounts are as follows:

Revenue bond debt service account	\$ 798,663
Revenue bond reserve account	<u>1,074,900</u>
	<u><u>\$ 1,873,563</u></u>

C. Receivables

Receivables as of year end, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:

Accounts	\$ 1,322,381
Other	<u>13,510</u>
Gross accounts receivable	1,335,891
Less: allowance for uncollectibles	<u>(45,689)</u>
Net total receivables	<u><u>\$ 1,290,202</u></u>

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

D. Capital assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 738,726	\$ -	\$ -	\$ 738,726
Construction in progress	886,892	2,356,440	(954,407)	2,288,925
Total capital assets not being depreciated	<u>1,625,618</u>	<u>2,356,440</u>	<u>(954,407)</u>	<u>3,027,651</u>
Capital assets being depreciated:				
Buildings and building improvements	748,664	-	-	748,664
Water distribution system	79,309,834	3,056,347	-	82,366,181
Sewer distribution system	6,585,368	775,429	-	7,360,797
Equipment, furniture and fixtures	2,730,406	283,927	(75,563)	2,938,770
Master plan	33,202	-	-	33,202
Total capital assets being depreciated	<u>89,407,474</u>	<u>4,115,703</u>	<u>(75,563)</u>	<u>93,447,614</u>
Less accumulated depreciation for:				
Buildings and building improvements	(501,418)	(23,453)	-	(524,871)
Water distribution system	(24,956,432)	(2,281,650)	-	(27,238,082)
Sewer distribution system	(1,816,123)	(252,214)	-	(2,068,337)
Equipment, furniture and fixtures	(2,049,486)	(306,245)	75,045	(2,280,686)
Master plan	(11,474)	(6,640)	-	(18,114)
Total accumulated depreciation	<u>(29,334,933)</u>	<u>(2,870,202)</u>	<u>75,045</u>	<u>(32,130,090)</u>
Total capital assets being depreciated, net	<u>60,072,541</u>	<u>1,245,501</u>	<u>(518)</u>	<u>61,317,524</u>
Capital assets, net	<u>\$ 61,698,159</u>	<u>\$ 3,601,941</u>	<u>\$ (954,925)</u>	<u>\$ 64,345,175</u>

The construction in progress consists of system improvements and the construction of a new service center facility.

E. Construction commitments

The District has construction projects outstanding as of December 31, 2016. These projects consist of system improvements and the construction of a new service center facility and are evidenced by contractual commitments with \$1,898,469 spent to date and \$371,533 of commitment remaining.

F. Equity interest in joint venture

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The District participates in the following joint venture:

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

F. Equity interest in joint venture (continued)

Brazos Regional Public Utility Agency (BRPUA) - The BRPUA operates the Lake Granbury Surface Water Treatment System (SWATS) plant which treats raw or untreated water diverted from Lake Granbury. It is governed by a five-member board appointed by the District and Acton Municipal Utility District (AMUD). In accordance with the SWATS Facility Operating Agreement, in the event there is an underage or overage of the budgeted costs as compared to the actual costs in any year, then, such overage or underage attributable to a Participant shall be, at the option of such Participant, (a) included in the next year's annual budget or (b) refunded to such Participant. The District's investment in BRPUA totaling \$918,644 is from its initial contribution to BRPUA. If terminated, BRPUA assets will be distributed proportionally in accordance with the percentage of the allocated production capacity of the water treatment plant that each participant has contracted to take at the time of dissolution. See Note 3.G for further information on the District's participation in SWATS.

Complete separate financial statements for the BRPUA may be obtained at Brazos Regional Public Utility Agency, 5912 Matlock Road, Granbury, Texas 76049.

G. Other significant commitments

City of Mansfield. In May 2009, the District and the City of Mansfield entered into a 20-year water purchase contract whereby the District has a total available volume of 9 million gallons per day (MGD) from the City.

City of Grand Prairie. In 2010, the District entered into a 40-year agreement with the City of Grand Prairie. The agreement calls for the City to purchase water initially from the District (up to 5 MGD) until the City's Highway 360 pipeline is complete, at which time the District may purchase water from the City for a total volume of 6 MGD.

Brazos River Authority. The District reserves raw water from BRA to make treated water available for its future needs. Under the new agreement dated December 1, 2012, the District had a total of 9,210 acre-feet of water secured each year. In turn, the District is obligated to unconditionally pay the system rate as determined each year by BRA. For BRA's 2016-2017 budget years, the rate was \$72.00 per acre-foot. The District elects to distribute the cost uniformly throughout the year; therefore, a nominal finance fee is included at the rate of \$0.1042 per acre-foot. The costs to the District in 2016 for its secured raw water was \$654,957. The agreement ends in 2048.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

G. Other significant commitments (continued)

Surface Water and Treatment System. The District entered into an agreement with BRPUA to obtain treated water from BRPUA. Under the agreement, the District will make monthly payments sufficient to pay for the allocated portion of operation and maintenance, capital improvements, and debt service regarding the SWATS plant. In the current year, expenses related to the BRPUA contract totaled \$3,904,461. This amount, reported as water purchases, includes maintenance and operations expenses and debt service payments as follows:

Maintenance and operation expenses	\$2,945,211
Debt service payments	<u>959,250</u>
	<u><u>\$3,904,461</u></u>

A portion of the Brazos Regional Public Utility Contract Revenue Bond, Series 2012 (SWATS Plant Acquisition - Johnson County Special Utility District Contribution), sold in May 2012, is secured solely by the payments of the District. The maturities of the District's portion are as follows as of December 31, 2016:

Year Ending December 31	The Agency Bonds ⁽¹⁾			% of Principal Retired
	Principal	Interest	Total	
2017	\$ 820,000	\$ 138,450	\$ 958,450	14.83%
2018	840,000	122,050	962,050	30.02%
2019	860,000	105,250	965,250	45.57%
2020	880,000	85,900	965,900	61.48%
2021	900,000	63,900	963,900	77.76%
2022	910,000	36,900	946,900	94.21%
2023	320,000	9,600	329,600	100.00%
Total	<u>\$ 5,530,000</u>	<u>\$ 562,050</u>	<u>\$ 6,092,050</u>	

⁽¹⁾ Brazos Regional Public Utility Agency Contract Revenue Bonds, Series 2012 (SWATS Plant Acquisition - Johnson County Special Utility District Contribution) sold in May 2012.

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12 (Table 4).

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

H. Retirement plan

The Johnson County 457 Plan was established under Internal Revenue Service (IRS) Code Section 457(b). Eligible employees may defer the lesser of 100% of their includible compensation or \$18,000 for 2016. In addition to these deferrals, employees at least age fifty may make catch-contributions of \$6,000 for 2016. For 2016, employee contributions to this plan were \$119,244.

The Johnson County Profit Sharing Plan was established under IRS Code Section 401. The District contributes to this plan each year an amount equal to 11.0% of the compensation of eligible employees. The contributions were \$158,294 for 2016.

Both plans are sole employer, defined contribution plans and have the same participation requirements: employees must be at least 21 and complete one year of service in which they complete 1,000 hours of continuous service. Additionally, a minimum 4.0% employee deferral contribution to the 457 Plan is required in order to participate in the Profit Sharing Plan.

I. 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 materially exceeded this commercial coverage in any of the past three fiscal years.

J. Long-term liabilities

Revenue Bonds

The District issues bonds where the District pledges income derived from the acquired or constructed assets to pay debt service. The bonds were issued to finance the acquisition and construction of major capital facilities and to provide funds for the refunding of prior revenue bonds. The issuance of the refunding bonds did not result in a difference between the reacquisition price of the old debt and the net carrying amount of the old debt. Therefore, there is no deferred charge on refunding reflected in the statement of net position. Revenue bonds outstanding at year end are as follows:

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

J. Long-term liabilities (continued)

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2005 - Refunding	\$ 6,245,000	8/15/2021	3.00%-4.30%	\$ 1,420,000
2012	9,500,000	8/15/2031	0.30%-3.00%	7,795,000
2013 - Refunding	8,510,000	8/15/2031	1.00%-2.65%	6,790,000
				<u>\$ 16,005,000</u>

Long-term liability activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 17,495,000	\$ -	\$ (1,490,000)	\$ 16,005,000	\$ 1,285,000
Plus deferred amounts:					
For issuance discount	(17,296)	-	3,295	(14,001)	-
For issuance premium	249,649	-	(16,020)	233,629	-
Total bonds payable	<u>17,727,353</u>	<u>-</u>	<u>(1,502,725)</u>	<u>16,224,628</u>	<u>1,285,000</u>
Compensated absences	201,662	177,572	(184,158)	195,076	33,215
Long-term liabilities	<u>\$ 17,929,015</u>	<u>\$ 177,572</u>	<u>\$ (1,686,883)</u>	<u>\$ 16,419,704</u>	<u>\$ 1,318,215</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,285,000	\$ 385,396
2018	1,320,000	354,567
2019	1,330,000	322,798
2020	1,045,000	289,707
2021	1,045,000	268,293
2022-2026	4,705,000	1,034,795
2027-2031	5,275,000	446,480
	<u>\$ 16,005,000</u>	<u>\$ 3,102,036</u>

The resolutions authorizing issuance of the District's bonds provided certain requirements as follows:

Debt service account. This section requires monthly transfers from the system account to the debt service account in the amount equal to 1/6 of next maturing interest plus 1/12 of next maturing principal for debt service payments.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES (continued)

J. Long-term liabilities (continued)

Reserve account. A reserve account is required by the resolutions authorizing issuance of all the bonds issued by the District.

Total amounts required to be on deposit in the debt service and reserve accounts compared to actual amounts on deposit are as follows:

	Debt Service Account	Reserve Account
Series 2005, 2012 and 2013		
Required Ultimate Balance		\$ 1,190,857
Required Present Balance	\$ 679,940	\$ 848,460
Actual Present Balance	\$ 798,663	\$ 1,074,900

K. Subsequent events

Subsequent to year end, the District approved the following items:

- Construction for a new office building project for estimated \$3,045,200.

SUPPLEMENTARY FINANCIAL DATA

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
For the Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual	Actual - Over (Under) Budget
OPERATING REVENUES			
Water sales	\$ 13,068,042	\$ 12,610,422	\$ (457,620)
Sewer service	1,112,440	1,234,598	122,158
Penalties	243,000	232,984	(10,016)
Installation fees	130,000	164,048	34,048
Miscellaneous	191,000	175,298	(15,702)
Total operating revenues	<u>14,744,482</u>	<u>14,417,350</u>	<u>(327,132)</u>
OPERATING EXPENSES			
Water purchases	7,347,720	6,156,820	(1,190,900)
Personnel services	2,471,816	2,506,633	34,817
Repair, maintenance and supplies	789,200	659,054	(130,146)
Utilities and communication	750,000	662,079	(87,921)
Other	703,871	766,460	62,589
Depreciation and amortization	2,906,641	2,870,202	(36,439)
Total operating expenses	<u>14,969,248</u>	<u>13,621,248</u>	<u>(1,348,000)</u>
OPERATING INCOME (LOSS)	(224,766)	796,102	1,020,868
NONOPERATING REVENUES (EXPENSES)			
Gain on sale of assets	16,000	26,131	10,131
Investment earnings	21,000	59,017	38,017
Other income	115,986	180,020	64,034
System development fees	475,000	638,660	163,660
Interest expense	(393,260)	(393,260)	-
Total nonoperating revenues (expenses)	<u>234,726</u>	<u>510,568</u>	<u>275,842</u>
INCOME BEFORE CONTRIBUTIONS	9,960	1,306,670	1,296,710
Capital contributions	<u>-</u>	<u>2,496,019</u>	<u>2,496,019</u>
CHANGE IN NET POSITION	<u>\$ 9,960</u>	<u>\$ 3,802,689</u>	<u>\$ 3,792,729</u>

Number of persons employed by the District:

Full-time	38
Part-time	1

(Not including independent contractors or consultants)

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
SCHEDULE OF INSURANCE IN FORCE
December 31, 2016

INSURER	RISK COVERED	POLICY AMOUNT	EXPIRATION
Texas Municipal League	General liability	\$2,000,000/\$4,000,000	December 1, 2017
	Sudden events involving pollution	2,000,000/4,000,000	December 1, 2017
	Automobile liability	1,000,000	December 1, 2017
	Auto physical damage	varies per vehicle	December 1, 2017
	Boiler and machinery	2,486,300	December 1, 2017
	Errors and omissions	5,000,000/10,000,000	December 1, 2017
	Supplemental sewage backup	25,000/50,000	December 1, 2017
	Real and personal property	44,421,190	December 1, 2017
	Mobile equipment	367,091	December 1, 2017
	Public employee dishonesty	1,000,000	December 1, 2017
	Forgery or alteration	100,000	December 1, 2017
	Theft, disappearance, and destruction	30,000	December 1, 2017
	Worker's compensation	1,739,559	December 1, 2017
Ambac Assurance Corporation	Surety bond - Series 2005 Bonds	623,371	August 15, 2021

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
SCHEDULE OF SERVICES AND RATES
For the Year Ended December 31, 2016
(Unaudited)

1. Services provided by the District: Retail and Wholesale water; retail sewer
2. Retail rates based on 5/8" meter
Most prevalent type of meter: 5/8"

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 gallons over minimum</u>	<u>Usage Levels</u>
Water (*)	\$33	N/A	N	\$4.00	0-6,000
				5.00	6,001-15,000
				6.00	15,001 plus
Sewer (*)	\$21	N/A	N	\$3.75	0-10,000

District employs winter averaging for sewer usage? Yes

Total water charges per 10,000 gallons usage: water \$77.00; sewer \$56.00 (maximum)

3. Total water consumption (in thousands) during the fiscal year:
Gallons pumped into system: 1,549,570
Gallons billed to customer: 1,265,110
Water accountability ratio: 81.6%

4. Retail water connections within the District as of the fiscal year end.

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
<=5/8"	15,968	14,480 x	1.0	14,480
3/4"	27	26 x	1.5	39
1"	156	145 x	2.5	363
1 1/2"	23	22 x	5.0	110
2"	56	48 x	8.0	384
3"	9	8 x	15.0	120
4"	7	5 x	25.0	125
6"	4	4 x	72.0	288
Total Water	16,250	14,738		15,909
Total Sewer	1,879	1,891 x	1.0	1,891

(*) Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12 (Table 3)

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
SCHEDULE OF TEMPORARY INVESTMENTS
December 31, 2016

	<u>Identification Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>% of Total</u>
LOGIC	No. 01	Market	On demand	\$ 455	
	No. 02	Market	On demand	115,069	
	No. 04	Market	On demand	318,883	
				<u>434,407</u>	<u>3.2%</u>
TexSTAR	No. 110	Market	On demand	2,113,550	
	No. 330	Market	On demand	4,026,836	
	No. 550	Market	On demand	3,369,327	
				<u>9,509,713</u>	<u>69.3%</u>
Texas DAILY		Market	On demand	<u>330,140</u>	<u>2.4%</u>
TexPool	No. 02	Market	On demand	798,663	
	No. 05	Market	On demand	370,230	
	No. 06	Market	On demand	96,037	
	No. 08	Market	On demand	531,991	
	No. 09	Market	On demand	446,872	
				<u>2,243,793</u>	<u>16.4%</u>
Pinnacle Bank Money Market		0.05%	N/A	<u>5,058</u>	<u>0.0%</u>
Certificates of Deposit	Pinnacle Bank-Texas	0.75%	05/02/2017	235,778	
	Grandview Bank, TX. - 685	0.75%	05/14/2017	202,398	
	Grandview Bank, TX. - 735	1.00%	02/24/2017	126,065	
	Grandview Bank, TX. - 736	1.00%	02/24/2017	126,065	
	MBS-Santander Bk Natl.DE.	0.80%	01/13/2017	151,161	
	MBS-Israel Disc.Bk. NY.	0.85%	01/27/2017	125,984	
	MBS-Ally Bk Midvale UT.	1.30%	01/16/2018	100,605	
	MBS-Firstbank PR.	1.20%	01/22/2018	125,037	
			<u>1,193,093</u>	<u>8.7%</u>	
Total				<u><u>\$ 13,716,204</u></u>	<u><u>100.0%</u></u>

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12 (Table 8)

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
FUTURE DEBT SERVICE OBLIGATIONS
December 31, 2016

Fiscal Year Ended December 31	2005 Revenue Refunding Bonds ⁽¹⁾			2012 Revenue Bonds ⁽¹⁾			2013 Revenue and Refunding Bonds ⁽¹⁾			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total		
2017	\$ 405,000	\$ 58,909	\$ 463,909	\$ 430,000	\$ 185,150	\$ 615,150	\$ 450,000	\$ 141,337	\$ 591,337	\$ 1,670,396	
2018	415,000	42,304	457,304	445,000	176,550	621,550	460,000	135,713	595,713	1,674,567	
2019	410,000	25,185	435,185	455,000	167,650	622,650	465,000	129,963	594,963	1,652,798	
2020	105,000	8,170	113,170	465,000	158,550	623,550	475,000	122,987	597,987	1,334,707	
2021	85,000	3,655	88,655	475,000	149,250	624,250	485,000	115,388	600,388	1,313,293	37.64%
2022	-	-	-	485,000	139,750	624,750	500,000	106,657	606,657	1,231,407	
2023	-	-	-	500,000	130,050	630,050	395,000	96,658	491,658	1,121,708	
2024	-	-	-	515,000	120,050	635,050	405,000	88,165	493,165	1,128,215	
2025	-	-	-	525,000	108,463	633,463	415,000	79,052	494,052	1,127,515	
2026	-	-	-	540,000	96,650	636,650	425,000	69,300	494,300	1,130,950	67.04%
2027	-	-	-	555,000	83,150	638,150	435,000	59,100	494,100	1,132,250	
2028	-	-	-	575,000	69,275	644,275	450,000	48,443	498,443	1,142,718	
2029	-	-	-	590,000	54,900	644,900	465,000	37,192	502,192	1,147,092	
2030	-	-	-	610,000	37,200	647,200	475,000	25,335	500,335	1,147,535	
2031	-	-	-	630,000	18,900	648,900	490,000	12,985	502,985	1,151,885	100.00%
	<u>\$1,420,000</u>	<u>\$138,223</u>	<u>\$1,558,223</u>	<u>\$7,795,000</u>	<u>\$1,695,538</u>	<u>\$9,490,538</u>	<u>\$6,790,000</u>	<u>\$1,268,275</u>	<u>\$8,058,275</u>	<u>\$ 19,107,036</u>	

⁽¹⁾ Parity Lien Obligations secured solely from and secured by a lien on and pledge of the Pledged Revenues and shall be superior to the lien on and pledge of the Pledged Revenues securing payment of any Subordinate Lien Obligation.

Source: Bond Resolutions
Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12 (Table 5)

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
CHANGES IN LONG-TERM BONDED DEBT
December 31, 2016

	Series 2005 Revenue Refunding Bonds	Series 2011 Revenue Refunding Bonds	Series 2012 Revenue Bonds	Series 2013 Revenue and Refunding Bonds	Total
Interest Rates	3.00% - 4.3%	2.04%	0.30% - 3%	1.00% - 2.65%	
Dates Interest Payable	2/15;8/15	2/15;8/15	2/15;8/15	2/15;8/15	
Maturity Dates	8/15/2021	8/15/2016	8/15/2031	8/15/2031	
Beginning Balances January 1, 2015	\$ 1,845,000	\$ 200,000	\$ 8,215,000	\$ 7,235,000	\$ 17,495,000
Addition During the Fiscal Year	-	-	-	-	-
Retired During the Fiscal Year	(425,000)	(200,000)	(420,000)	(445,000)	(1,490,000)
Ending Balances December 31, 2016	<u>\$ 1,420,000</u>	<u>\$ -</u>	<u>\$ 7,795,000</u>	<u>\$ 6,790,000</u>	<u>\$ 16,005,000</u>
Interest Paid During the Fiscal Year	<u>\$ 75,909</u>	<u>\$ 4,080</u>	<u>\$ 191,450</u>	<u>\$ 146,900</u>	<u>\$ 418,339</u>

Paying Agent's Name and City	
Revenue Refunding Bonds Series 2005	U.S. Bank Corporate Trust Services, Los Angeles, CA
Revenue Refunding Bonds Series 2011	Regions Bank, Birmingham, AL
Revenue Bonds Series 2012	BOKF, N.A. dba Bank of Texas, Dallas, TX
Revenue Refunding Bonds Series 2013	BOKF, N.A. dba Bank of Texas, Dallas, TX

	Series 2005 Revenue Refunding Bonds	Series 2011 Revenue Refunding Bonds	Series 2012 Revenue Bonds	Series 2013 Revenue and Refunding Bonds	
Bond Authority:					
Amount Authorized by Voters	<u>\$ 6,245,000</u>	<u>\$ 960,000</u>	<u>\$ 9,500,000</u>	<u>\$ 8,510,000</u>	
Amount Issued	6,245,000	960,000	9,500,000	8,510,000	
Remaining to be Issued	-	-	-	-	
Restricted cash for debt service as of December 31, 2016:					
Interest and sinking funds	\$ 221,808	\$ -	\$ 294,120	\$ 282,735	\$ 798,663
Reserve funds	(1)	-	628,028	446,872	1,074,900
Total	<u>221,808</u>	<u>-</u>	<u>922,148</u>	<u>729,607</u>	<u>1,873,563</u>

Average Annual Principal and Interest Requirements, 2016 - 2031 \$ 1,273,802
Coverage of Average Requirements by December 31, 2016 Net Revenues 3.59

Maximum Principal and Interest Requirements, 2016 \$ 1,674,567
Coverage of Maximum Requirements by December 31, 2016 Net Revenues 2.73

Number of years remaining on longest remaining bonded debt 15

⁽¹⁾ 2005 Bond reserve fund is funded by a surety policy issued by Ambac Assurance Corporation in the amount of \$621,371. The 2012 and 2013 Bond reserves are funded monthly for 60 months.

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12 (Table 7)

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
Five Years Ended December 31, 2016

	Amounts					Percent of Fund Total Revenues				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Operating Revenues										
Water sales	\$ 12,532,895	\$ 12,801,892	\$ 12,548,132	\$ 12,753,026	\$ 12,610,422	86.9	87.8	86.7	87.4	87.5
Fire hydrant meter water sales	291,365	177,865	165,258	-	-	2.0	1.2	1.1	-	-
Sewer revenues	1,033,085	1,038,053	1,075,121	1,129,415	1,234,598	7.2	7.1	7.4	7.7	8.6
Penalties	240,374	249,861	245,456	253,601	232,984	1.7	1.7	1.7	1.7	1.6
Installation fees	108,099	96,917	133,020	135,288	164,048	0.7	0.7	0.9	0.9	1.1
Miscellaneous	209,376	224,415	299,554	326,417	175,298	1.5	1.5	2.1	2.2	1.2
Total Revenues	14,415,194	14,589,003	14,466,541	14,597,747	14,417,350	100.0	100.0	100.0	100.0	100.0
Operating Expenses:										
Water purchases	6,810,261	5,845,474	7,898,411	8,265,385	6,156,820	47.2	40.1	54.6	56.6	42.7
Personnel services	2,017,039	2,079,327	2,163,209	2,389,123	2,506,633	14.0	14.3	15.0	16.4	17.4
Repair, maintenance and supplies	672,861	646,738	807,274	734,081	659,054	4.7	4.4	5.6	5.0	4.6
Utilities and communication	523,349	541,600	711,131	696,930	662,079	3.6	3.7	4.9	4.8	4.6
Other	604,639	577,731	628,873	627,637	766,460	4.2	4.0	4.3	4.3	5.3
Operating Expenses Excluding Depreciation and amortization	10,628,149	9,690,870	12,208,898	12,713,156	10,751,046	73.7	66.4	84.4	87.1	74.6
Operating Income before Depreciation and amortization	3,787,045	4,898,133	2,257,643	1,884,591	3,666,304	26.3	33.6	15.6	12.9	25.4
Depreciation and Amortization:	2,095,588	2,096,605	2,395,717	2,820,344	2,870,202	14.5	14.4	16.6	19.3	19.9
Operating Income (Loss)	1,691,457	2,801,528	(138,074)	(935,753)	796,102	11.7	19.2	(1.0)	(6.4)	5.5
Nonoperating Revenues (Expenses):										
Gain (loss) on sale of assets	(1,555)	46,518	39,452	27,445	26,131	-	0.3	0.3	0.2	0.2
Investment earnings	36,746	48,823	29,518	19,319	59,017	0.3	0.3	0.2	0.1	0.4
Other income	-	-	243,968	300,000	180,020	-	-	1.7	2.1	1.2
System development fees	513,405	473,701	420,759	691,420	638,660	3.6	3.2	2.9	4.7	4.4
Interest expense	(239,032)	(149,203)	(224,993)	(427,225)	(393,260)	(1.7)	(1.0)	(1.6)	(2.9)	(2.7)
Bond issuance costs	(135,666)	(106,168)	-	-	-	(0.9)	(0.7)	-	-	-
Total Nonoperating Revenues (Expenses)	173,898	313,671	508,704	610,959	510,568	1.2	2.2	3.5	4.2	3.5
Income (Loss) Before Capital Contributions and Extraordinary Item	1,865,355	3,115,199	370,630	(324,794)	1,306,670	12.9	21.4	2.6	(2.2)	9.1
Capital contributions	2,782,488	1,067,864	51,990	274,770	2,496,019	19.3	7.3	0.4	1.9	17.3
Extraordinary Item - Settlement For Lost Capacity-SWATS	6,000,000	-	-	-	-	41.6	-	-	-	-
Changes in Net Position	\$ 10,647,843	\$ 4,183,063	\$ 422,620	\$ (50,024)	\$ 3,802,689	73.9	28.7	2.9	(0.3)	26.4
Active Water Customers	13,923	14,105	14,320	14,411	14,738					
Active Sewer Customers	1,737	1,746	1,777	1,827	1,891					

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
CONDENSED SUMMARY OF OPERATING RESULTS
(CALCULATION BASED ON BOND RESOLUTION REQUIREMENTS)
December 31, 2016

	Fiscal Year Ended December 31,				
	2012	2013	2014	2015	2016
<u>Gross Revenues</u>					
Water Sales	\$12,532,895	\$12,801,892	\$12,548,132	\$12,753,026	\$12,610,422
Fire Revenue	291,365	177,865	165,258	-	-
Sewer Services	1,033,085	1,038,053	1,075,121	1,129,415	1,234,598
Interest Income	36,746	48,823	29,518	19,319	59,017
Settlement for Lost Capacity at SWATS	6,000,000	-	-	-	-
Other Revenue	1,071,254	1,044,894	1,382,209	1,734,171	1,417,141
Total Gross Revenues	\$20,965,345	\$15,111,527	\$15,200,238	\$15,635,931	\$15,321,178
<u>Operating Expenses</u> ⁽¹⁾					
Treated Water	\$ 5,989,324	\$ 5,248,473	\$ 7,269,626	\$ 7,613,383	\$ 5,501,863
Brazos River Authority Contracts	820,937	597,001	628,785	652,002	654,957
Other	3,817,888	3,845,396	4,310,487	4,447,771	4,594,226
Total Operating Expenses	\$10,628,149	\$ 9,690,870	\$12,208,898	\$12,713,156	\$10,751,046
Net Available For Debt Service	\$10,337,196	\$ 5,420,657	\$ 2,991,340	\$ 2,922,775	\$ 4,570,132
Active Water Customers	13,923	14,105	14,320	14,411	14,738
Active Sewer Customers	1,737	1,746	1,777	1,827	1,891

⁽¹⁾ Excludes Depreciation and Amortization

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12 (Table 6)

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
BOARD OF DIRECTORS, MANAGEMENT TEAM, AND CONSULTANTS
 December 31, 2016
 (Unaudited)

Complete District Mailing Address: PO Box 509, Cleburne, Texas 76033
 District Business Telephone Number: (817) 760-5200
 Submission Date of the Most Recent District Registration Form: 02/18/2016
 Limit on Fees of Office that a Director May Receive During a Fiscal Year: \$7,200

Board Director	Term of Office Elected and Expires	Fees and Expense Reimbursements*	Title at Year End
Tommy Webb	2016 - 2019	\$ -	President
Gene Petross	2016 - 2019	646	Vice-President
Michael Bowles	2016 - 2019	421	Secretary / Treasurer
Harry Shaffer	2014 - 2017	-	Assistant Secretary / Treasurer
Richard Connelly	2015 - 2017	-	Director
Jack Beavers	2015 - 2018	768	Director
Martha Dean	2015 - 2018	-	Director

* These expense reimbursements are for lodging, meals, transportation related to training and conferences, and miscellaneous other costs.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
 BOARD OF DIRECTORS, MANAGEMENT TEAM, AND CONSULTANTS (continued)
 December 31, 2016
 (Unaudited)

<u>Management Team</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements*</u>	<u>Title at Year End</u>
Terry D. Kelley	11/23/1992	\$ 198	General Manager
Ronnie Nichols	9/5/1978	185	System Operation Manager / System Development Coordinator
Danny Armstrong	12/9/2002	156	Operations Manager
Shirley Bishop	3/4/2002	-	Office Manager
Kathy L. Rice	10/23/2013	592	Controller / Accounting Manager
<u>Consultants</u>			
Anthony Bennett		3,646	Attorney
Cain & Associates, P.C.		11,774	Attorney
Jackson Walker LLP		70,280	Attorney
Yeldell, Wilson, Wood & Reeve, P.C.		27,181	Auditor
Specialized Public Finance Inc.		-	Financial Advisor
Municipal Engineers & Mgmt.		23,735	Engineer
Kimley-Horn & Associates, Inc.		35,250	Engineer
Childress Engineers		1,100	Engineer
Teague Nall and Perkins, Inc.		-	Engineer
Civil Solutions		-	Engineer

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
ANNUAL MATERIAL EVENT DISCLOSURE CHECKLIST
December 31, 2016
(Unaudited)

Yes No

- X 1. Has Issuer failed to make timely payments of interest and principal or reserve fund requirements (if required on any outstanding debt obligation)?
- X 2. Has Issuer had any other defaults not related to debt payments?
- X 3. Has Issuer utilized any debt service reserves due to financial problems?
- X 4. Have there been any unscheduled draws on credit enhancements due to financial problems (bond insurance policies, liquidity agreements, etc.)?
- X 5. Has there been any change of providers of credit enhancement or liquidity facilities, or have they failed to provide funds under their contract with Issuer (if applicable)?
- X 6. Is Issuer aware of any adverse tax opinions or other events that might affect the tax-exempt status of bonds?
- X 7. Have there been any changes or amendments to outstanding documents which might affect the rights of bond investors?
- X 8. Has Issuer exercised its right or given notice to prepay or call bonds in advance of maturity?
- X 9. Has Issuer prepaid (defeased) any outstanding debt obligations?
- X 10. Has there been any release, substitution, or sale of any property securing debt service?
- X 11. Is Issuer aware of any changes in outstanding bond credit ratings?
- X 12. Have there been any other material or adverse events that might impact an investor's decision to buy or sell Issuer's outstanding debt obligations?

STATISTICAL SECTION (Unaudited)

This part of the Johnson County Special Utility District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health. This information has not been audited by the independent auditor.

<u>Contents</u>	<u>Page</u>	<u>Tables</u>
<p><i>Financial Trends</i> These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</p>	55-57	1-2
<p><i>Revenue Capacity</i> These schedules contain information to help the reader assess the District's most significant revenue sources, charges for services.</p>	58-62	3-4
<p><i>Debt Capacity</i> These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</p>	63-64	5-6
<p><i>Demographic and Economic Information</i> These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</p>	65-66	7-8
<p><i>Operating Information</i> These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</p>	67-69	9-11

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NET POSITION BY COMPONENT
Last Ten Fiscal Years

	FISCAL YEAR									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Position:										
Net investment in capital assets	\$ 22,321,475	^a \$ 25,293,777	^b \$ 29,090,575	^c \$ 30,441,483	^e \$ 31,580,199	^g \$ 37,337,910	ⁱ \$ 41,235,467	^l \$ 43,088,093	\$ 43,883,656	\$ 48,120,547
Restricted for debt service	503,403	^a 544,525	546,209	550,809	515,815	703,727	^j 1,071,716	^m 1,283,535	1,501,144	1,729,039
Unrestricted	6,962,654	^a 6,490,185	3,446,687	^d 6,225,232	^f 10,073,892	^h 14,776,114	^k 14,693,631	13,890,939	12,827,743	12,165,646
Total Net Position	<u>\$ 29,787,532</u>	<u>\$ 32,328,487</u>	<u>\$ 33,083,471</u>	<u>\$ 37,217,524</u>	<u>\$ 42,169,906</u>	<u>\$ 52,817,751</u>	<u>\$ 57,000,814</u>	<u>\$ 58,262,567</u>	<u>\$ 58,212,543</u>	<u>\$ 62,015,232</u>

^a On April 1, 2007, the District acquired the assets and liabilities of Johnson County Fresh Water Supply District #1 (JCFWSD). This included \$5,922,876 in capital assets, \$1,376,512 in cash, \$2,400,000 in long-term debt, and various other assets and liabilities. The net contributed capital received was \$5,065,958. The increase in restricted assets is for the bond debt requirements of the JCFWSD.

^b During fiscal year 2008, increase in improvements to the water distribution systems and capital contributed by developers.

^c During fiscal year 2009, increase in improvements to the water distribution systems and purchases of equipment.

^d During fiscal year 2009, fire hydrant water sales decreased substantially and mineral royalty income decreased due to the decline in oil and gas production in the area.

^e During fiscal year 2010, capital assets increased due to improvements to the water distribution system.

^f During fiscal year 2010, the District recorded a reduction in purchase water expense due to the receipt of \$1,620,330 from the Brazos River Authority for fiscal years 2009 and 2010 expense adjustments. Contributed property increased due to the completion and receipt of a \$350,000 Community Development Block Grant for a water system project and an increase of \$527,000 in TxDOT reimbursements.

^g During fiscal year 2011, capital assets increased due to improvements to the water and sewer distribution system.

^h During fiscal year 2011, the District recorded a reduction in purchase water expense due to the receipt of \$333,976 from the Brazos River Authority for fiscal years 2010 and 2011 expense adjustments. Contributed property increased due to the completion of a \$816K commercial development project in the Joshua area. Operating revenues increased approximately \$1.6M due to the implementation of a rate increase and increased volume due to drought conditions and \$550K due to the temporary assignment sale of 8,000 acre feet of raw water.

ⁱ During fiscal year 2012, construction in progress for the TBTF project increased \$3.37M, construction in progress for the Highway 121 project increased \$2.3M, added \$1.35M in assets which included a 3MG transmission storage tank, high service pumps, and transmission line as part of the SWATS transfer to the Brazos River Public Utility Agency (BRPUA). These costs were offset by an increase in payables of \$2.3M for capital related projects.

^j During fiscal year 2012, debt reserve and sinking fund requirements increased due to the issuance of \$9.8M in bonds to fund the Trinity Basin Transmission Facilities (TBTF).

^k During fiscal year 2012, the District received \$6M for a settlement of lost capacity at the SWATS plant. This was partially offset by cash paid for capital projects.

^l During fiscal year 2013, construction in progress for the TBTF project increased \$13.1M, final payments of the Highway 121 project of \$1.3M, and various other capital projects offset by the TBTF debt issuance of \$8.5M and a reduction in capital liabilities of \$2.3M recorded in prior year payables.

^m During fiscal year 2013, debt reserve and sinking fund requirements increased due to the issuance of \$8.5M in bonds to fund the TBTF and cumulative funding for the 2012 bond debt reserve.

ⁿ During fiscal year 2016, increase in improvements to the water distribution systems and capital contributed by developers.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
CHANGE IN NET POSITION
Last Ten Fiscal Years

	FISCAL YEAR									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues:										
Water sales	\$8,503,657	\$10,391,791 ^b	\$10,648,475	\$11,477,284 ^h	\$14,024,137 ^k	\$12,532,895 ^o	\$12,801,892 ^l	\$12,548,132	\$12,753,026	\$12,610,422
Fire hydrant meter water sales	1,496,355	1,693,831	620,140 ^e	965,536	627,149 ^e	291,365 ^e	177,865	165,258	-	-
Sewer revenues	562,189	912,901 ^b	939,876	987,601	1,064,181 ^k	1,033,085 ^o	1,038,053	1,075,121	1,129,415	1,234,598
Penalties	179,582	216,871	221,487	232,097	272,137	240,374	249,861	245,456	253,601	232,984
Installation fees	147,115	143,599	106,675	91,179	106,732	108,099	96,917	133,020	135,288	164,048
Miscellaneous	214,510	743,726 ^c	317,227	300,605	243,257	209,376	224,415	299,554	326,417	175,298
Total Operating Revenues	<u>11,103,408</u>	<u>14,102,719</u>	<u>12,853,880</u>	<u>14,054,302</u>	<u>16,337,593</u>	<u>14,415,194</u>	<u>14,589,003</u>	<u>14,466,541</u>	<u>14,597,747</u>	<u>14,417,350</u>
Operating Expenses:										
Water purchases	6,519,094	7,383,146 ^d	7,574,537	5,813,784 ⁱ	7,032,436 ^m	6,810,261	5,845,474 ^r	7,898,411	8,265,385	6,156,820 ^w
Personnel services	1,560,155	1,653,973	1,963,760 ^f	1,903,487	1,880,702	2,017,039	2,079,327	2,163,209	2,389,123	2,506,633
Repair, maintenance and supplies	601,513	679,044	667,565	532,778	587,843	672,861	646,738	807,274	734,081	659,054
Utilities and communication	584,479	793,116	595,963	620,988	615,459	523,349	541,600	711,131	696,930	662,079
Other expenses	448,078	665,274	606,286	526,065	588,489	604,639	577,731	628,873	627,637	766,460
Depreciation and amortization	1,434,502	1,632,437	1,821,325	199,379	1,956,682	2,095,588	2,096,605	2,395,717	2,820,344	2,870,202
Total Operating Expenses	<u>11,147,821</u>	<u>12,806,990</u>	<u>13,229,436</u>	<u>9,596,481</u>	<u>12,661,611</u>	<u>12,723,737</u>	<u>11,787,475</u>	<u>14,604,615</u>	<u>15,533,500</u>	<u>13,621,248</u>
Operating Income (Loss)	<u>(44,413)</u>	<u>1,295,729</u>	<u>(375,556)</u>	<u>4,457,821</u>	<u>3,675,982</u>	<u>1,691,457</u>	<u>2,801,528</u>	<u>(138,074)</u>	<u>(935,753)</u>	<u>796,102</u>
Nonoperating Revenues (Expenses):										
Gain (loss) on sale of assets	17,083	10,916	12,663	38,400	23,361	(1,555)	46,518	39,452	27,445	26,131
Investment earnings	350,518	217,155	84,236 ^g	54,494	35,703	36,746	48,823	29,518	19,319	59,017
Other income	-	-	-	-	-	-	-	243,968 ^u	300,000 ^u	180,020
System development fees	422,641	415,795	454,619	345,966	392,375	513,405	473,701	420,759	691,420	638,660
Interest expense	(336,753)	(351,937)	(329,955)	(303,363)	(262,985)	(239,032)	(149,203) ^s	(224,993)	(427,225)	(393,260)
Bond issuance costs	-	-	-	-	(57,538)	(135,666)	(106,168)	-	-	-
Total Nonoperating Revenues (Expenses)	<u>453,489</u>	<u>291,929</u>	<u>221,563</u>	<u>135,497</u>	<u>130,916</u>	<u>173,898</u>	<u>313,671</u>	<u>508,704</u>	<u>610,959</u>	<u>510,568</u>
Income (Loss) Before Capital Contributed and Extraordinary Item	409,076	1,587,658	(153,993)	4,593,318	3,806,898	1,865,355	3,115,199	370,630	(324,794)	1,306,670
Capital Contributed	753,846	953,297	908,976	1,260,735 ^j	1,145,484 ⁿ	2,782,488 ^p	1,067,864 ^t	51,990	274,770	2,496,019
Extraordinary Item	5,065,958 ^a	-	-	-	-	6,000,000 ^q	-	-	-	-
Change in Net Position	<u>\$6,228,880</u>	<u>\$ 2,540,955</u>	<u>\$ 754,983</u>	<u>\$ 5,854,053</u>	<u>\$ 4,952,382</u>	<u>\$10,647,843</u>	<u>\$ 4,183,063</u>	<u>\$ 422,620</u>	<u>\$ (50,024)</u>	<u>\$ 3,802,689</u>

^a \$5,065,958 net contributed capital received due to the acquisition of Johnson County Fresh Water Supply District #1 (JCFWSD) on April 1, 2007.

^b These reflect a full year of revenues from the JCFWSD acquisition.

^c During fiscal year 2008, the District received \$304,105 in mineral royalties. On April 23, 2008, the TCEQ approved the decertification of 115 acres of the District's service area to be transferred to Johnson County Fresh Water District #2, for \$207,607.

^d Expense increased \$708,565 due to the construction of a 30" raw water line at the Brazos River Authority SWATS Plant, with the balance of \$122,056, \$107,800, and \$80,835 to be expensed in fiscal years 2009, 2010, and 2011, respectively.

^e Decline in gas drilling activity in the area.

^f Increases in employee benefit costs, pay increases and two key personnel positions added in the last quarter of fiscal year 2008.

^g Late in the 4th quarter of 2008, the U.S. economy experienced the most deterioration of value since the Great Depression resulting in a dramatic reduction in interest rates.

^h The District signed a wholesale water contract with the City of Alvarado in October 2009, which resulted in a revenue increase of \$225,684 in fiscal year 2010. During fiscal year 2010, the District signed wholesale contracts with Bethany Special Utility District and Monarch Utilities, resulting in a revenue increase of approximately \$138,000 and \$46,200, respectively.

ⁱ During fiscal year 2010, the District received \$1,620,330 from the Brazos River Authority for fiscal year 2009-2010 expense adjustments.

^j During fiscal year 2010, the District received a \$350,000 Community Development Block Grant for a water system project and an increase of \$527,000 in TxDOT reimbursements.

^k Water and Sewer sales increased due to a rate increase implemented January 2011 and increased volume due to drought conditions.

^l Temporary assignment sale of 8,000 acre feet of raw water in 2011 and 4,000 acre feet of raw water in 2013.

^m Purchase water expense increased \$1.2M due to the variance in refunds received from Brazos River Authority for fiscal years 2010-2011 and fiscal years 2009-2010 of \$334K, \$1.6M, respectively.

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ⁿ Capital contributed increased due the completion of a \$816K commercial development project.

^o Water and Sewer sales decreased due to a decline in drought conditions.

^p \$2.3M for partial completion of the NTTA/TxDOT 121 project.

^q Settlement received for lost capacity at the Lake Granbury Surface Water Treatment Plant.

^r Decrease in purchase water expense of \$945K due to recognizing a full year of costs savings from the Brazos Regional Public Utility Agency taking ownership of SWATS in May 2012, which eliminated management fees, BRA overhead costs and higher debt costs (refinanced with favorable rates) and turning back 4,000 acre feet of raw water to the Brazos River Authority in December 2012.

^s Decrease due to the capitalization of interest of \$372K to the bond construction projects, partially offset by an increase due to the 2013 bond issue of \$8.5M for the Trinity Basin Transmission Facilities (TBTF).

^t \$703K for remaining costs of the completed NTTA/TxDOT 121 project.

^u In 2014, the District received \$244K for the sale of CCN to the City of Ft. Worth.

^v In 2015, the District received \$300K for the sale of CCN to the City of Mansfield.

^w In 2016, the District received a refund in the amount of \$864K from the PUA for over payment to O & M and Capital improvements.

Table 3

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
AVERAGE REVENUE RATES
 Last Ten Fiscal Years

Fiscal Year	Monthly Revenue/Customer	
	Water	Wastewater
2007	\$ 52.00	\$ 40.00
2008	63.00	43.50
2009	65.00	43.50
2010	70.00	55.00
2011	84.00	56.00
2012	75.00	56.00
2013	76.00	56.00
2014	73.00	56.00
2015	72.00	54.00
2016	66.00	49.00

Source: District Annual Financial Audits

Notes:

Water revenue based on 10,000 gallons

Wastewater revenue based on 10,000 gallons for residential customers

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED)
 Last Ten Years (unaudited)

FISCAL YEAR 2007					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
EOG Resources	Energy Exploration & Production	122,347,229	9.00%	\$ 706,665	7.06%
Robert Patterson	Energy Exploration & Production	49,343,000	3.63%	284,058	2.83%
Chesapeake Operating Company	Energy Exploration & Production	25,754,968	1.89%	150,273	1.49%
City of Alvarado	Municipality	8,412,860	0.62%	60,342	0.59%
Godley ISD	School ISD	7,790,660	0.57%	43,229	0.42%
Polley Co Construction	Energy Exploration & Production	7,578,600	0.56%	43,633	0.43%
Williams Company	Energy Exploration & Production	6,499,500	0.48%	37,708	0.37%
Lattimore Materials	Ready Mix Concrete	6,008,740	0.44%	32,080	0.31%
Total Oilfield Services	Energy Exploration & Production	5,808,800	0.43%	34,101	0.33%
Conoco Phillips	Energy Exploration & Production	4,326,225	0.32%	24,904	0.24%
		243,870,582	17.94%	\$ 1,416,993	14.07%
	Total Usage	1,359,511,000			
	Total Water Sales			\$ 10,000,012	
FISCAL YEAR 2008					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
EOG Resources	Energy Exploration & Production	102,305,510	6.24%	\$ 608,786	5.05%
Chesapeake Operating Company	Energy Exploration & Production	39,252,830	2.40%	234,402	1.94%
Conoco Phillips	Energy Exploration & Production	22,805,700	1.40%	135,924	1.12%
Stallion Oilfield	Energy Exploration & Production	21,552,350	1.32%	129,143	1.07%
XTO Energy	Energy Exploration & Production	20,470,400	1.26%	122,138	1.01%
Polley Co Construction	Energy Exploration & Production	20,200,900	1.24%	119,973	0.99%
Southwest Water Co *	Mobile Home Park	16,918,750	1.04%	105,443	0.87%
Bridgeport Tank Trucks	Energy Exploration & Production	12,990,520	0.80%	74,095	0.61%
Godley ISD	School ISD	9,479,490	0.59%	53,588	0.44%
CT & Sallie Chien	Mobile Home Park	7,431,260	0.46%	41,485	0.34%
		273,407,710	16.75%	\$ 1,624,977	13.44%
	Total Usage	1,641,266,000			
	Total Water Sales			\$ 12,085,622	
FISCAL YEAR 2009					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
EOG Resources	Energy Exploration & Production	40,157,070	2.87%	\$ 252,337	2.24%
Ray Richey Management	Energy Exploration & Production	21,878,100	1.57%	136,384	1.21%
Bridgeport Tank Trucks	Energy Exploration & Production	20,071,910	1.44%	118,446	1.05%
Chesapeake Operating Company	Energy Exploration & Production	14,865,890	1.07%	94,608	0.84%
Southwest Water Co *	Mobile Home Park	7,062,050	0.51%	59,704	0.53%
CT & Sallie Chien	Mobile Home Park	6,690,870	0.49%	48,632	0.43%
Godley ISD	School ISD	6,609,080	0.48%	37,086	0.33%
Vanderra Resources	Energy Exploration & Production	6,187,800	0.45%	38,509	0.34%
David Zulejkic	Multi Family Units	3,983,490	0.29%	33,443	0.30%
Pecan Village Mobile Home Park	Mobile Home Park	3,688,060	0.27%	22,803	0.20%
		131,194,320	9.44%	\$ 841,952	7.47%
	Total Usage	1,401,854,000			
	Total Water Sales			\$ 11,268,615	

* Monarch Utilities was formerly reported as Southwest Water Co

Table 4 (continued)

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED) (continued)
 Last Ten Years (unaudited)

FISCAL YEAR 2010					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
EOG Resources	Energy Exploration & Production	99,132,130	6.89%	\$ 623,549	5.01%
Chesapeake Operating Company	Energy Exploration & Production	38,073,850	2.65%	240,103	1.93%
Bridgeport Tank Trucks	Energy Exploration & Production	19,249,570	1.34%	119,936	0.96%
Joshua ISD	School ISD	9,813,320	0.68%	125,385	1.01%
Godley ISD	School ISD	9,227,890	0.64%	55,496	0.45%
CT & Sallie Chien	Mobile Home Park	6,419,500	0.45%	39,636	0.32%
Sabre Communications	Industrial Manufacturing	5,063,590	0.35%	34,661	0.28%
Monarch Utilities *	Investor-owned Utility Provider	4,880,420	0.34%	74,303	0.60%
Kodiak Constructors	Construction	4,851,400	0.34%	30,605	0.25%
Devon Energy	Energy Exploration & Production	4,680,260	0.33%	29,844	0.24%
		201,391,930	14.01%	\$ 1,373,518	11.05%
	Total Usage	1,439,073,000			
	Total Water Sales			\$ 12,442,820	
FISCAL YEAR 2011					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
Chesapeake Operating Company	Energy Exploration & Production	36,342,110	2.18%	\$ 238,606	1.63%
EOG Resources	Energy Exploration & Production	33,428,160	2.00%	222,734	1.52%
Monarch Utilities *	Investor-owned Utility Provider	15,947,390	0.95%	162,924	1.11%
Bridgeport Tank Trucks	Energy Exploration & Production	12,745,810	0.76%	83,127	0.57%
City of Alvarado	Municipality	12,168,700	0.73%	346,545	2.37%
City of Joshua	Municipality	9,145,900	0.55%	62,252	0.42%
Joshua ISD	School ISD	8,491,180	0.51%	104,397	0.71%
CT & Sallie Chien	Mobile Home Park	7,064,100	0.42%	43,535	0.30%
Godley ISD	School ISD	5,969,540	0.36%	40,616	0.28%
Norwood Land Services	Energy Exploration & Production	5,286,100	0.32%	34,470	0.24%
		146,588,990	8.78%	\$ 1,339,206	10.76%
	Total Usage	1,670,652,000			
	Total Water Sales			\$ 14,651,286	
FISCAL YEAR 2012					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
EOG Resources	Energy Exploration & Production	24,790,320	1.76%	\$ 164,773	1.29%
City of Alvarado	Municipality	20,210,600	1.44%	376,702	2.94%
Granite Construction	Construction	14,841,030	1.06%	97,527	0.76%
Monarch Utilities *	Investor-owned Utility Provider	10,715,510	0.76%	135,456	1.06%
City of Keene	Municipality	9,405,000	0.67%	145,127	1.13%
Bridgeport Tank Trucks	Energy Exploration & Production	7,963,960	0.57%	55,600	0.43%
Joshua ISD	School ISD	7,916,190	0.56%	92,356	0.72%
Sabre Communications	Industrial Manufacturing	7,696,300	0.55%	49,716	0.39%
City of Joshua	Municipality	7,017,140	0.50%	52,789	0.41%
CT & Sallie Chien	Mobile Home Park	6,709,430	0.48%	41,495	0.32%
		117,265,480	8.35%	\$ 1,211,541	9.45%
	Total Usage	1,404,835,000			
	Total Water Sales			\$ 12,824,260	

* Monarch Utilities was formerly reported as Southwest Water Co

Table 4 (continued)

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED) (continued)
 Last Ten Years (unaudited)

FISCAL YEAR 2013					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
City of Keene	Municipality	29,849,000	2.12%	\$ 300,262	2.31%
Granite Construction	Construction	20,326,930	1.45%	133,956	1.03%
Monarch Utilities *	Investor-owned Utility Provider	12,183,700	0.87%	143,164	1.10%
Joshua ISD	School ISD	7,823,570	0.56%	91,732	0.71%
City of Joshua	Municipality	6,664,170	0.48%	52,241	0.40%
CT & Sallie Chien	Mobile Home Park	6,678,020	0.48%	41,315	0.32%
Halliburton Energy	Energy Exploration & Production	5,694,530	0.41%	40,552	0.31%
Lattimore Materials	Ready Mix Concrete	5,154,450	0.37%	30,520	0.24%
Godley ISD	School ISD	4,795,260	0.35%	39,286	0.30%
Alvarado ISD	School ISD	3,748,470	0.27%	24,218	0.19%
		102,918,100	7.36%	\$ 897,246	7.12%
	Total Usage	1,414,626,000			
	Total Water Sales			\$ 12,979,757	

FISCAL YEAR 2014					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
City of Keene	Municipality	49,014,000	3.55%	\$ 379,483	2.98%
Granite Construction	Construction	12,663,140	0.92%	83,451	0.66%
Monarch Utilities *	Investor-owned Utility Provider	17,383,040	1.26%	167,571	1.32%
Joshua ISD	School ISD	7,820,120	0.57%	90,213	0.71%
City of Joshua	Municipality	4,464,930	0.32%	39,399	0.31%
CT & Sallie Chien	Mobile Home Park	2,541,460	0.18%	15,635	0.12%
Halliburton Energy	Energy Exploration & Production	5,631,570	0.41%	40,238	0.32%
Lattimore Materials	Ready Mix Concrete	10,474,310	0.76%	61,161	0.48%
Godley ISD	School ISD	1,982,130	0.14%	23,202	0.18%
Alvarado ISD	School ISD	590,230	0.04%	6,245	0.05%
		112,564,930	8.15%	\$ 906,597	7.13%
	Total Usage	1,380,044,000			
	Total Water Sales			\$ 12,713,390	

FISCAL YEAR 2015					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
City of Keene	Municipality	40,201,000	2.98%	\$ 368,959	2.89%
City of Alvarado	Municipality	26,700,400	1.98%	410,085	3.22%
Monarch Utilities *	Investor-owned Utility Provider	9,595,730	0.71%	101,114	0.79%
City of Joshua	Municipality	7,244,900	0.54%	46,502	0.36%
Sabre Communications Corp.	Commercial	9,221,890	0.68%	46,583	0.37%
Walnut Creek Mobile Home Park	Mobile Home Park	5,239,230	0.39%	49,329	0.39%
Halliburton Energy	Energy Exploration & Production	3,725,430	0.28%	24,009	0.19%
Joshua ISD	School ISD	3,404,500	0.25%	39,666	0.31%
David Zulejkic	Multi Family Units	3,320,220	0.25%	22,441	0.18%
Sabre Communications Corp.	Commercial	3,059,490	0.23%	20,925	0.16%
		111,712,790	8.29%	\$ 1,129,613	8.86%
	Total Usage	1,348,005,000			
	Total Water Sales			\$ 12,753,026	

* Monarch Utilities was formerly reported as Southwest Water Co

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED) (continued)
 Last Ten Years (unaudited)

FISCAL YEAR 2016					
<u>Customer</u>	<u>Type of Industry</u>	<u>Water Usage</u>	<u>% of Total Unaudited Water Usage</u>	<u>Water Revenue</u>	<u>% of Total Unaudited Water Revenue</u>
City of Keene	Municipality	38,414,000	2.73%	\$ 381,782	3.03%
City of Alvarado	Municipality	32,833,400	2.33%	460,686	3.65%
City of Joshua	Municipality	10,619,300	0.76%	83,651	0.66%
Joshua ISD	School ISD	7,335,290	0.53%	121,638	0.96%
David A Zulejkic	Multi Family Units	5,798,380	0.42%	91,747	0.73%
Emerald Companies	Commercial	5,236,620	0.38%	36,109	0.29%
Walnut Creek Mobile Home Comm	Mobile Home Park	4,809,980	0.35%	48,115	0.38%
Monarch Utilities I LP	Investor-owned Utility Provider	4,687,310	0.34%	107,242	0.85%
Sabre Communications Corp	Commercial	3,955,410	0.29%	33,162	0.26%
Pecan Village Mobile Park	Mobile Home Park	3,825,570	0.28%	50,714	0.40%
		117,515,260	8.41%	\$ 1,414,846	11.22%
	Total Usage	1,414,626,000			
	Total Water Sales			\$ 12,610,422	

* Monarch Utilities was formerly reported as Southwest Water Co

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12 (Table 2)

Source: District Billing System

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
TOTAL INDEBTEDNESS PER CUSTOMER
 Last Ten Fiscal Years

Fiscal Year Ended December 31,	Bonds Payable	Note Payable	Capital Lease Payable	Total Indebtedness	Total ⁽¹⁾ Customers	Debt Per Customer
2007	\$7,791,345	\$530,000	\$ -	\$ 8,321,345	13,593	\$ 612
2008	7,229,640	486,000	202,743	7,918,383	13,708	578
2009	6,652,936	440,000	155,738	7,248,674	13,711	529
2010	6,056,230	392,000	106,360	6,554,590	13,705	478
2011	5,771,134	-	54,489	5,825,623	13,834	421
2012	14,855,816	-	-	14,855,816	13,923	1,067 ⁽²⁾
2013	20,712,803	-	-	20,712,803	14,105	1,468 ⁽²⁾
2014	19,215,078	-	-	19,215,078	14,297	1,344
2015	17,727,353	-	-	17,727,353	14,997	1,182
2016	16,224,628	-	-	16,224,628	14,738	1,101

Sources:

District Billing System
 District Annual Financial Audits

- ⁽¹⁾ Excluded wastewater customer count since they are already reflected in the water customer count.
- ⁽²⁾ The District issued \$19 million in bonds to fund the Trinity Basin Transmission Facilities Project. Now the District has more than doubled its supply capacity availability via purchase water agreements with Mansfield and Grand Prairie. Also, new revenue is derived from several wholesale contracts which goes to offset the new debt service and avoids the need to increase retail water rates.

Table 6

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
REVENUE BOND COVERAGE
 Last Ten Fiscal Years

Fiscal Year Ended December 31,	Total Revenues ⁽¹⁾	Total Expenses ⁽²⁾	Net Revenues Available for Debt Service	Bond Debt Service Requirements ⁽³⁾	Coverage
2007	\$11,876,567	\$ 9,713,319	\$ 2,163,248	\$ 881,537	2.45
2008	14,735,669	11,174,553	3,561,116	889,404	4.00
2009	13,392,735	11,408,111	1,984,624	884,679	2.24
2010	14,454,762	9,397,102	5,057,660	883,216	5.73
2011	16,765,671	10,704,929	6,060,742	1,483,863	4.08
2012	20,965,345	10,628,149	10,337,196	946,577	10.92
2013	15,111,527	9,690,870	5,420,657	3,047,403	1.78
2014	15,200,238	12,208,898	2,991,340	1,972,630	1.52
2015	15,635,931	13,140,381	2,495,550	1,927,917	1.29
2016	15,321,178	11,144,306	4,176,872	1,908,339	2.19

(1) Includes interest income, system development fees, and \$6M settlement for lost capacity at SWATS received in 2012

(2) Excludes depreciation and amortization

(3) Includes principal and interest

Table 7

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
NUMBER OF CUSTOMERS BY SERVICE
Last Ten Fiscal Years

Fiscal Year Ended December 31,	Water	Wastewater
2007	13,593	1,617
2008	13,708	1,671
2009	13,711	1,739
2010	13,705	1,707
2011	13,834	1,723
2012	13,923	1,737
2013	14,105	1,746
2014	14,320	1,777
2015	14,411	1,827
2016	14,738	1,891

Source: District Billing System

Table 8

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Fiscal Years

Fiscal Year Ended December 31,	Estimated Population Johnson County	Personal Income Johnson County (in Thousands)	Per Capita Income Johnson County	Unemployment Rate Johnson County
2007	145,123	\$ 4,587,957	\$ 31,614	4.1%
2008	148,635	4,903,505	32,990	6.0%
2009	150,583	4,751,789	31,556	8.0%
2010	151,330	4,871,441	32,191	8.1%
2011	152,734	5,081,300	33,269	8.5%
2012	154,781	5,298,773	34,234	6.8%
2013	155,064	5,569,924	35,920	6.3%
2014	157,456	5,927,812	37,647	5.0%
2015	160,462	5,943,994	37,043	4.1%
2016	163,166	6,231,612	38,192	4.3%

Notes:

The District's service area is predominately in Johnson County, but also serves small areas in Tarrant, Hill and Ellis counties.

Source:

Johnson County, Texas - Comprehensive Annual Financial Reports

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
HISTORICAL USAGE BY FUNCTION
 December 31, 2016 (unaudited)

HISTORICAL WATER USAGE (mgd)				
Fiscal Year Ended December 31,	Average Daily Usage	Peak Day Usage	Total Usage	Number of Water Customers
2007	3.72	5.982	1,359.5	13,593
2008	4.49	8.72	1,641.3	13,708
2009	3.84	8.66	1,401.9	13,711
2010	3.94	7.98	1,439.1	13,705
2011	4.68	9.66	1,707.2	13,834
2012	3.93	8.19	1,434.6	13,923
2013	3.87	7.85	1,414.6	14,105
2014	3.95	8.99	1,442.2	14,320
2015	3.77	9.04	1,375.3	14,411
2016	4.21	7.48	1,287.6	14,738

Source:
 District Billing System
 Monthly Operations Report

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12 (Table 1)

HISTORICAL WASTEWATER TREATMENT				
Fiscal Year Ended December 31,	Average Day (MGD)	Max Day (MGD)	Total Treated (MG)	Number of Sewer Customers
2007	0.5	1.2	175.9	1,617
2008	0.3	0.8	125.3	1,671
2009	0.4	1.0	136.0	1,739
2010	0.4	0.8	147.9	1,707
2011	0.3	0.8	121.0	1,723
2012	0.4	1.1	146.6	1,737
2013	0.4	0.6	129.9	1,746
2014	0.3	0.9	125.2	1,777
2015	0.4	1.3	162.4	1,827
2016	0.4	0.9	145.9	1,891

Source:
 District Billing System
 Monthly Operations Report

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
FULL-TIME EMPLOYEES BY FUNCTION
 December 31, 2016 (unaudited)

Fiscal Year Ended December 31,	Administrative	Water	Wastewater	Total
2007	12	13	4	29
2008	15	11	4	30
2009	15	14	4	33
2010	13	13	4	30
2011	13	15	4	32
2012	13	15	4	32
2013	13	15	3	31
2014	15	15	4	34
2015	16	18	4	38
2016	18	16	4	38

Source: District Payroll System

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
CAPITAL ASSET STATISTICS BY FUNCTION
 Last Ten Fiscal Years

	FISCAL YEAR									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water										
Land	\$ 108,837	\$ 289,387	\$ 335,073	\$ 414,267	\$ 448,715	\$ 499,490	\$ 526,732	\$ 530,120	\$ 571,557	\$ 537,195
Water Wells and Distribution System	24,740,335	26,998,303	29,931,445	29,754,182	30,723,525	32,101,159	35,311,026	55,349,138	54,353,992	54,866,870
Equipment	153,457	315,817	301,357	263,972	219,956	176,315	133,539	149,665	124,118	266,772
Master plan	2,855	47,329	37,365	27,401	17,437	7,473	-	18,921	14,380	9,839
Total Water	<u>25,005,484</u>	<u>27,650,836</u>	<u>30,605,240</u>	<u>30,459,822</u>	<u>31,409,633</u>	<u>32,784,437</u>	<u>35,971,297</u>	<u>56,047,844</u>	<u>55,064,047</u>	<u>55,680,676</u>
Wastewater										
Land	14,840	14,840	14,840	14,840	14,840	14,840	14,840	14,840	14,840	14,840
Buildings and Structures	-	-	35,599	33,758	31,917	30,075	28,234	26,393	24,741	22,710
Lift Stations and Distribution System	1,837,657	1,927,578	1,865,585	1,764,001	2,187,280	2,912,835	2,829,389	2,797,001	2,746,162	3,624,350
Wastewater Treatment Plant	1,213,169	1,175,214	1,103,728	1,044,014	1,008,263	931,685	2,199,769	2,130,051	2,022,174	1,929,339
Vehicles	-	226,673	201,718	176,763	151,808	126,853	101,899	96,980	86,369	38,980
Equipment	2,642	2,361	255,829	235,382	207,839	295,709	256,329	266,072	221,098	117,564
Master plan	-	-	39,610	30,290	20,970	11,650	2,330	9,447	7,348	5,249
Total Wastewater	<u>3,068,308</u>	<u>3,346,666</u>	<u>3,516,909</u>	<u>3,299,048</u>	<u>3,622,917</u>	<u>4,323,647</u>	<u>5,432,790</u>	<u>5,340,784</u>	<u>5,122,732</u>	<u>5,753,032</u>
General										
Land	17,325	17,325	17,325	-	-	-	-	152,329	152,329	186,691
Buildings and Structures	238,470	244,503	307,108	291,143	273,143	263,860	251,049	237,954	223,057	201,083
Vehicles	75,870	124,457	171,868	144,047	140,746	183,653	202,740	162,478	144,700	145,106
Office Furniture and Equipment	66,597	124,160	176,135	138,771	126,768	112,274	69,914	81,806	104,402	89,662
Total General	<u>398,262</u>	<u>510,445</u>	<u>672,436</u>	<u>573,961</u>	<u>540,657</u>	<u>559,787</u>	<u>523,703</u>	<u>634,567</u>	<u>624,488</u>	<u>622,542</u>
Total Capital Assets	\$ 28,472,054	\$ 31,507,947	\$ 34,794,585	\$ 34,332,831	\$ 35,573,207	\$ 37,667,871	\$ 41,927,790	\$ 62,023,195	\$ 60,811,267	\$ 62,056,250

Note: Balances presented are net of accumulated depreciation, amortization and construction in progress
 Source: District Fixed Asset System

	FISCAL YEAR									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water										
Water storage capacity-Elevated (MG)	4	4	4	4	5	5	5	5	5	5
Water storage capacity-Ground (MG)	4	4	4	4	4	7	7	9	9	9
Miles of water mains	836	841	848	854	859	888	901	926	926	926
Number of active wells	21	20	20	20	20	20	20	21	21	21
Production (MG)	1,537	1,816	1,560	1,616	1,898	1,667	1,578	1,634	1,619	1,550
Billed and unbilled consumption (MG)	1,360	1,641	1,402	1,439	1,707	1,435	1,415	1,442	1,375	1,288
Water loss ratio	88.5%	90.4%	89.9%	89.0%	89.9%	86.1%	89.7%	88.2%	84.9%	83.1%
Available Supply Capacity (MG)	12.4	12.4	19.0	24.0	24.8	24.8	24.8	24.8	24.8	24.8
Wastewater										
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of lift stations	9	9	9	9	8	8	8	8	8	8
Miles of sewer mains	40	40	41	41	42	43	45	45	45	45
Annual engineering maximum plant capacity (MG)	256	256	256	256	256	256	256	256	256	256
Amount treated annually (MG)	176	125	136	148	121	132	130	125	162	146
Unused capacity (MG)	80	130	120	108	135	123	126	131	94	110
Percent of capacity utilized	68.9%	49.0%	53.2%	57.9%	47.4%	51.8%	50.7%	48.8%	63.3%	57.0%

Sources:
 District Financial Audits
 TWDB Water Audit Reports
 District Operational Reports

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS



YELDELL, WILSON, WOOD & REEVE, P.C

CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA
Glenda Valek, CPA | Caitlyn Keller, CPA

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 and Management of
Johnson County Special Utility District
Cleburne, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Johnson County Special Utility District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Johnson County Special Utility District's basic financial statements, and have issued our report thereon dated April 3, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Johnson County 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Johnson County Special Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Johnson County Special Utility District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Johnson County 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.

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountant

Waxahachie, Texas
April 3, 2017