

Johnson County Special Utility District

Comprehensive Annual Financial Report
Year Ended December 31, 2018



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Year Ended
December 31, 2018

**JOHNSON COUNTY
SPECIAL UTILITY DISTRICT**

Issued By
Accounting Department
Kathy Rice, Controller
Cleburne, Texas

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JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Comprehensive Annual Financial Report
December 31, 2018

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INTRODUCTORY SECTION

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Johnson County Special Utility District

"Quality and Service since 1965"

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

Dear Reader:

As we begin a new year to report on JCSUD's (commonly pronounced jace-sud) District finances and progress in 2018, it is always a relief in reporting once again that reservoirs in north central Texas continue to remain at or nearer to full levels. The last drought is still a vivid memory for many of us, particularly those working for a public water utility. The drought lasted five years from 2010 to 2015. Thankfully, it ended in 2015 with a record rainfall of 74 inches that year; which was about twice as much as the normal annual rainfall in this area of the state. Rainfall in Texas varies from eight inches in El Paso to 56 inches along the Louisiana border. Amid Cleburne's 37 inch average rainfall, 2018 was higher at 46 inches. In comparison, 2017 had 33 inches, 2016 had 45 inches. Still yet, over the last four wet years the District has done very well to exceed budgeted projections for collections. 2018 was an exceptional year, having 25% more rainfall since the District pumped a record 1,901 million gallons. This topped the previous record production of 1,898 million gallons in 2011; the area's hottest/driest year of record.

Every year management submits an annual financial report of the Johnson County Special Utility District. This cycle documents the fiscal year ending December 31, 2018. It provides the Board of Directors and the public with a comprehensive, reliable financial report. Management 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 JCSUD 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 2018 have been audited by George, Morgan, and Sneed, P.C., a firm of licensed certified public accountants in Weatherford, TX. The independent auditors concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion and that the financial statements for the year 2018 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 Rural 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 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 goes 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).

For long 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 14,426.

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 15,600 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 expresses an interest to obtain supply capacity to supplement the depleting well water source. In the last few years, the City of Cleburne has contemplated construction of 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 6 MGD with the City of Grand Prairie. JCSUD accounts for an ample total water supply capacity of 23.7 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 the positioned best for having an abundant surplus supply through 2040.

The system has about 891 miles of distribution pipeline and 48 miles of transmission lines and is divided into 15 separate pressure planes. The District operates seven 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 serves some 2,000 connections 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 seven lift stations among nearly 48 miles of sewer mains in this collection system. In 2013, the District completed improvements to the treatment plant which has an average daily discharge of about 360K gallons per day. Treatment methods include influent screening for two aeration basins, four clarifiers, three on-site lift stations and a chlorine contact basin. Treated effluent discharges into the Village Creek, which eventually flows into Lake Arlington. In 2017, the TCEQ approved the District's permit request to expand its average daily discharge volume to 790K gal/day.

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 again for another year. Investment Pool rates were 2.48% at the end of December 2018, improved from the 1.05% yield at the end of December 2017. Rates for Certificates of Deposit (CD) were also improved. At the end of December 2018, a one-year CD yielded between 1.8% and 2.75% as

compared to .75% and 1.80% at the end of December 2017. 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 2 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. The cost of internal controls should not outweigh their benefits; therefore, the District's internal controls have been designed to provide reasonable rather than absolute assurance.

MAJOR ACHIEVEMENTS

Mariposa Apt. Complex (Joshua) water and sewer improvements (\$122K) Development in Joshua over the last couple of years include two apartment complex projects named Mariposa and Cypress Creek Apt. complex. The combined 407 living units for these two developments required significant improvements needed in the sewer collection system. A new lift station was constructed (Plum Creek Lift Station) within the Mariposa complex and dedicated to JCSUD. This in turn enabled the District to abandon two older lift stations, Orchard Grove and the Middle School lift stations. JCSUD participated in a small portion of the overall scope of work since collection system line work and other improvements make way to accommodate more subdivision growth in the immediate area, while new facilities replaced old ones.

Relocate 15" sewer outfall line in Village Creek (\$101K) The wettest year of record in 2015 wreaked havoc with the subject main trunk line along the creek as it meanders to the wastewater treatment plant. A portion of the creek banks sloughed off and exposed the line which caused an urgent situation to reroute a segment of this line to relieve the risk factor as this subject line runs along the Village Creek to the Plant.

Contributed Property – subdivision development/commercial ventures (\$5.1 million) Since the national economy's rebound, many development projects within the District randomly began a couple of years ago. As new subdivision development continues to be contemplated, many developments were completed in 2018 to make this a record year in recording contributed property. This annual accounting of contributed property commemorates the District's approval of the water utility infrastructure within each development has been properly installed and accepted as JCSUD's property to perennially operate and maintain.

Redline Projects This is an ongoing work in progress to address the demand to serve more connections as growth continually occurs. Adding new meters onto smaller water lines installed decades ago (seemingly adequate during the early years of existence) eventually becomes problematic. About one-third of the system consists of 3-inch and smaller diameter lines. JCSUD maintains a system hydraulic model software to enable best planning to simulate system variables based on proposed growth where it is anticipated. Waterline segments are identified and ranked in accordance with the need 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 is practical. Compared to normal construction projects requiring a higher level of engineering, design, and easement acquisition, the District staff generally manages the prelim work prior to construction for redline projects. The preliminary planning work isn’t as detailed as new subdivision construction requires. However, the construction phase is outsourced to a selected contractor based on competitive quantity pricing and their ability to perform the work over the course of several projects, as long as construction pricing remains competitive.

Over the last five years, redline projects funded through 2018 total some \$2.2 million for about 10 miles (comparable distance from Cleburne courthouse to I-35 via US 67) of 6, 8, and 12 inch pipe. In 2018, a 6-inch line extension project along S. Hwy 171 (Hillsboro Hwy.) and CR 314 was completed (\$191K). Some 7,000 ft. of line work was a system looping project which improved this area of the distribution system. Future projects will be identified, ranked, and scheduled to implement in subsequent years as the system Master Plan stipulates.

Also completed in 2018 was the Chambers St. 6 inch line extension for some 2,600 linear ft. The Chambers St. line extension removed about 10 retail connections off of the transmission line between the Mansfield take-point meter to the Plant 27 pump station. Transmission lines work best when not supplying retail metered connections.

CURRENT INITIATIVES

\$22 million TWDB Loan – Bundled CIP Line Extension Projects In terms of distribution system projects taken on in a consolidated, relatively short interval, this TWDB loan project represents the largest undertaking for the District in its 54-year history. About \$15 million of this project goes toward the construction of distribution system improvements. About \$5.2 million towards the AMI (Advanced Metering Infrastructure) system project (smart meter change-out), while the remainder is designated for engineering, project management, etc. Roughly half of this undertaking is dedicated towards replacing smaller lines and some system maintenance. The other half is committed to addressing growth and related supply distribution improvements. Completion is expected in 2021.

Smart-meter conversion for the entire system JCSUD has thoroughly researched the merits of implementing an Advanced Meter Infrastructure (AMI) system to address conservation and water loss control. AMI is quickly becoming the new standard among public water systems, other utilities in Texas, and around the country for the same reasons. AMI platforms from a specialized

data management software system which integrates with new “smart meters”, whereby best results are achieved when installed system-wide. Smart meters provide a unique opportunity for customer service to monitor customer water usage like never before, in order to address call-ins about their usage or billing concerns. AMI also offers customers a portal for direct access to their account and observing their own usage history; even as frequent as hourly flow data. In turn, customers can observe first hand if continuous low flows exist which could indicate a leak. Or unknown higher flows occurring at random times to evidence unintended use, such as a sprinkler system operating when the customer wasn’t aware. This new technology enables the customer to better monitor usage to save water and money. It also increases operational efficiency. More accurate data available to the customer means fewer call-ins, which translates into fewer truck rolls and safer work conditions. Meter readers can now focus more than ever before on staying current with daily work orders. The District has engaged a consulting firm with an extensive background in advising and procuring AMI systems for utilities across the country. Converting the District over to an AMI system will enhance customer service and improve the overall efficiency in the meter reading and billing process. Estimated completion of this project is expected to be the 3rd quarter of 2019.

High Service Pump Station 2019 Rehab (\$780K) This facility at the SWATS treatment plant on Lake Granbury was constructed in 1988. It serves a very important purpose to transport treated water through the 24” transmission line to the TST (Transmission Storage Tank) at Brushy Knob hill near Joshua. Much needed improvements are in store to rehabilitate this facility including adding air release valves on the transmission line. This project is expected to be completed in 2019.

Community Development Grant Project This waterline extension project is 6 inch pipe for 11,260 feet. The District submitted for this grant application in February 2017. The grant consultant indicates that JCSUD qualifies for funding but the final confirmation is not yet complete. This \$275,000 grant is still pending approval through the Community Development Block program as administered by the Texas Department of Agriculture whereby federal HUD dollars are distributed throughout the states. The grant calls for JCSUD to participate with fractional matching funds depending on total construction cost. Estimated completion is in 2020.

Water/Wastewater Master Plan Update Since the District’s last Master Plan update in 2014, the District has implemented more water system improvements in such a short interval than ever before at \$24 million. The water system Master Plan was updated to best plan for capital projects needed in 5, 10 and 20 year periods. Changes in growth patterns and growth rates impact the timing of implementing projects. Likewise, the District maintains a sewer system Master Plan for the Joshua area of the system. Some \$2 million has been spent making sewer system improvements since 2013. It enables the District to plan best for needed collection system improvements and evaluate the timing of treatment plant improvements for better efficiency and accommodating growth. Completion is estimated in the first quarter of 2019.

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/service center facility. 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 6-acre tract south of Cleburne. At the time, the primary focus was on the rural families which populated this part of Johnson County. The new Service Center was completed in early 2017 and system operations is

better equipped to work from this new location. Phase 2 construction, which includes the administration building, parking, and entry/exit flow is currently underway. Another noteworthy item is that 40% of the remainder cost for Phase 2 (\$3.7 million) is covered by non-operating revenue (sources other than ratepayer collections). The other 60% is derived from cost reductions associated with the SWATS plant budget. The District shifted its main water supply taking from Lake Granbury to the City of Mansfield in 2014. The costly reverse osmosis (desalinized) drinking water from Lake Granbury was once our only surface water source. Today it represents about 16% of JCSUD's total sources supplied. The new administration building does not burden ratepayers with any added cost to finally complete the new office complex.

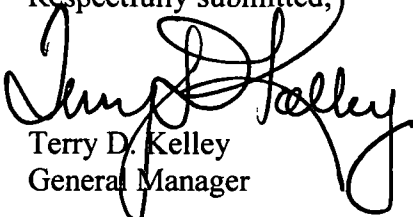
Next year in 2020, the District will mark its 55-year anniversary. The new office complex will also serve as a source of pride to conscientious employees, board members, and long-time customers having a vested interest in the history of the "life and times" of a little rural water coop which developed into an up-and-coming regional water provider. Completion is expected in the second quarter of 2019.


CONCLUSION

JCSUD is the largest special utility district in Texas. The District's Board of Directors consists of seven members elected at-large by the voting public within the District. Directors have 3-year terms with a staggered term election process. The General Manager serves as the District's authorized administrator to manage and oversee all business and personnel activities in accordance with District policies. All of these significant events, historical and current, are worth noting each reporting cycle. Today, more than ever before, the managing staff takes on a teamwork spirit to demonstrate our aboveboard efforts daily. Likewise, in presenting annually the Consumer Confidence Report and this Annual Financial Report.

As always, a sincere word of "Thanks" is due the Board of Directors for the vital role to serve collectively as the governing element. All of us working together to act and plan best, comes by balancing discernment with a teamwork spirit; it gets us farther along to timely advance the mission. On behalf of the managing staff of the District, we are committed and *...united in providing quality drinking water with quality service, to plan best to accommodate growth, and apply the fairest, reasonable cost all while conserving resources. (JCSUD Mission Statement)*

Respectfully submitted,


Terry D. Kelley
General Manager


Kathy Rice
Controller / Accounting Manager



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Johnson County
Special Utility District
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2017

Christopher P. Morill

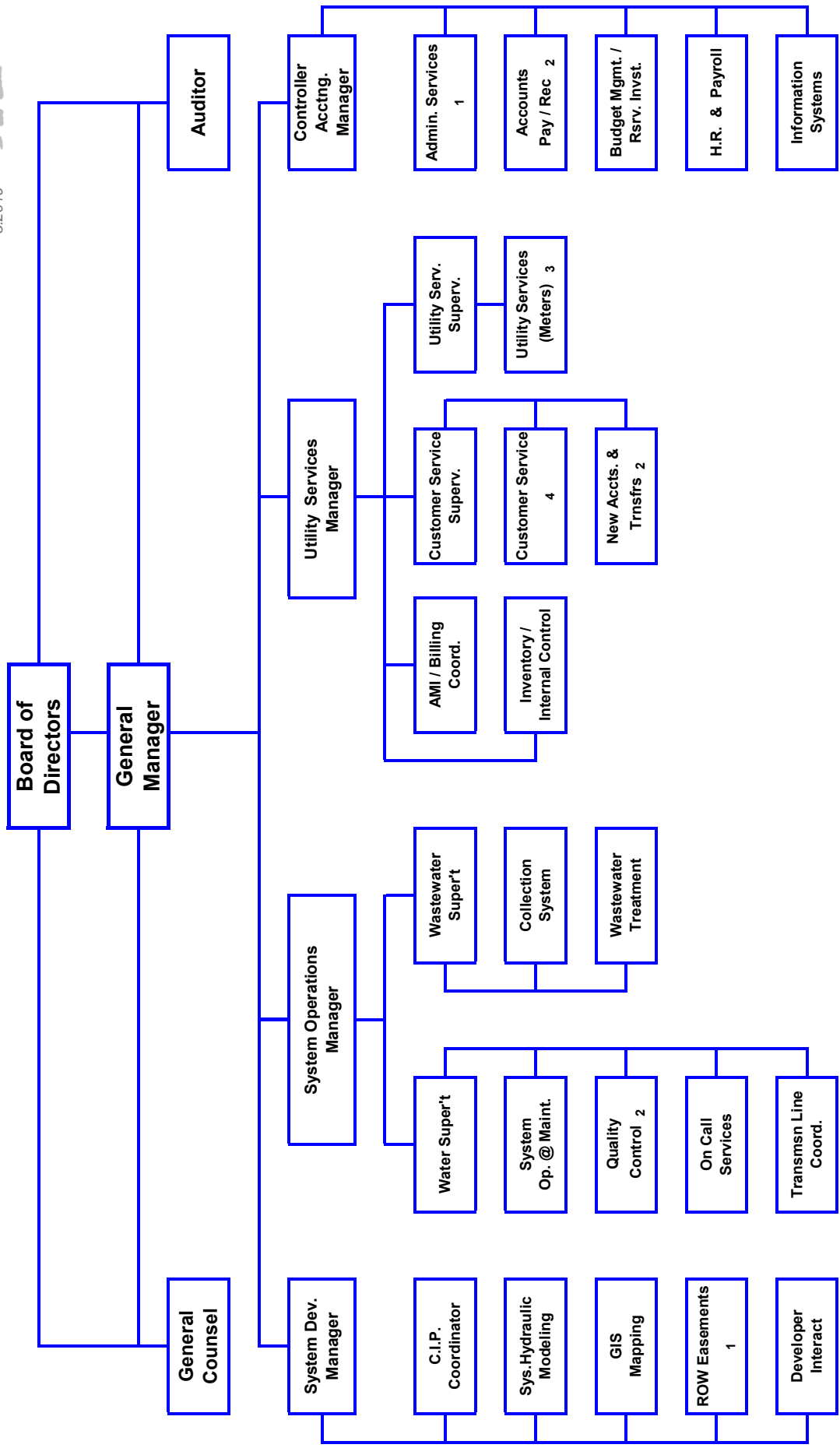
Executive Director/CEO



**JOHNSON COUNTY SPECIAL UTILITY DISTRICT
ORGANIZATIONAL CHART**

CONSTITUENCY / CUSTOMERS OF JCSUD

3.2019



JOHNSON COUNTY SPECIAL UTILITY DISTRICT
BOARD OF DIRECTORS AND MANAGEMENT TEAM
December 31, 2018

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
Eric Baze	Director

MANAGEMENT TEAM

Terry D. Kelley	General Manager
Dana Collier	System Development Manager
Danny Armstrong	System Operations Manager
Kathy L. Rice	Controller/Accounting Manager
Josh Howard	Utility Services Manager

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Johnson County Special Utility District (the "District"), as of and for the year ended December 31, 2018, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Johnson County Special Utility District, as of December 31, 2018, and the changes in financial position and its cash flows 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 4 - 8 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 with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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. This supplementary information has 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.

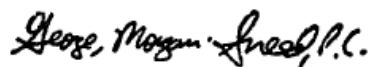
Adjustments to Prior Period Financial Statements

The financial statements of Johnson County Special Utility District as of December 31, 2017, were audited by other auditors whose report dated April 4, 2018, expressed an unmodified opinion on those financial statements. As discussed in Note 10 to the financial statements, the District has adjusted its financial statements to retrospectively apply the change described in Note 10. The other auditors reported on the financial statements before the retrospective adjustment.

As part of the audit of the 2018 financial statements, we also audited the adjustments described in Note 10 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the District other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.



Weatherford, Texas
April 5, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Johnson County Special Utility District, we offer readers of the Johnson County Special Utility District's financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2018. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- The assets of the Johnson County Special Utility District exceeded its liabilities at the close of the current year by \$84,011,056 (net position) compared to \$65,783,452 for the prior year. Of this amount, \$25,568,970 (unrestricted net position) may be used to meet the District's obligations to creditors.
- The District's total net position increased by \$8,720,168 for the current year reported. Net position in the previous year increased by \$3,768,220.
- Total capital assets (net of depreciation) were \$68,757,605 for the current year reported compared to \$64,008,806 in the previous year.
- Bonds payable were \$35,594,175 at year-end compared to \$14,926,903 at the previous year-end.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Johnson County Special Utility District's basic financial statements. The Johnson County Special Utility District's basic financial statements comprise two components: 1) proprietary fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information and statistical information in addition to the basic financial statements themselves.

Proprietary fund financial statements. The District maintains one proprietary fund. The District uses an enterprise fund to account for its water and sewer operations. The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The Statement of Revenues, Expenses and Change in Net Position presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

The basic financial statements can be found on pages 9 through 11.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 12 - 21 of this report.

Other information. In addition to the basic financial and accompanying notes, this report also presents certain supplementary information that further explains and supports the information in the financial statements.

Proprietary Fund Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Johnson County Special Utility District, assets exceeded liabilities by \$84,011,056 as of December 31, 2018.

A significant portion of the District's net position (65%) reflects its investment in capital assets (e.g. land, construction in progress, buildings, water systems, sewer systems, and equipment), net of any related debt used to acquire those asset that is still outstanding. Johnson County Special Utility District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. The use of constructed assets (pumps, storage tanks, distribution system, metering equip, transmission line, etc.) coupled with the workforce actually provide the foundation which generates some \$16 million annually in collections from retail and wholesale customers. JCSUD reports that about 16% of every dollar collected goes towards debt service and CIP spending. Seemingly assets have a significant role as a source which in part helps to retire debt.

An additional portion of the District's net position (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$25,568,970 represents resources that may be used to meet the District's ongoing obligations to creditors. As of December 31, 2018, the District is able to report a positive balance in all the categories of net position.

Below are summaries of the Johnson County Special Utility District's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position-Proprietary Fund.

Condensed Statement of Net Position

	2018	2017
Current assets and other assets	54,017,641	17,447,327
Capital assets	68,757,605	66,381,240
Total assets	<u>122,775,246</u>	<u>83,828,567</u>
Liabilities		
Current liabilities	5,303,859	4,319,927
Long-term liabilities	33,460,331	13,725,188
	<u>38,764,190</u>	<u>18,045,115</u>
Net position		
Invested in capital assets, net of related debt	54,689,237	49,081,903
Restricted for debt service	3,752,849	2,003,790
Unrestricted	25,568,970	14,697,759
	<u>84,011,056</u>	<u>65,783,452</u>

Changes in Net Position

	2018	2017
Revenues		
Operating revenues:		
Water sales	\$ 15,437,363	\$ 13,921,186
Sewer revenue	1,305,050	1,268,534
Penalties	254,690	242,888
Installation fees	339,539	232,548
Miscellaneous fees	225,301	201,425
Nonoperating revenues:		
Gain on sale of assets	2,527	61,659
Investment earnings	572,396	129,394
Other income	182,128	674,363
System development fees	1,282,345	918,600
Total revenues	19,601,339	17,650,597
Expenses:		
Water purchases	6,388,057 *	6,641,246
Other operating	5,312,722	4,996,751
Depreciation	3,171,978	2,894,213
Nonoperating	1,087,781	361,109
Total expenses	15,960,538	14,893,319
 Income before capital contributions	 3,640,801	 2,757,278
 Capital contributions	 5,079,367	 1,010,942
 Change in net position	 8,720,168	 3,768,220
Net position - beginning (Restated)	75,290,888	62,015,232
Net position - ending	84,011,056	65,783,452

* During the year the district adjusted its accounting method for its equity interest in joint venture. This resulted in a \$747,106 adjustment to current year water purchases. The following are water purchases using the same accounting methods as 2017.

	2018	2017	Increase (Decrease)
Water purchases	\$ 7,135,163	\$ 6,641,246	\$ 493,917

The amounts increased because of the increase in gallons of water sold.

The District's net position increased \$8,720,168 in the current year compared with a \$3,768,220 increase in the prior year. \$5,079,367 of the increase is due to developer contributions of water and sewer system improvements.

Total operating revenues increased \$1,695,362 (11%) due to a 216 million increase in gallons of water sold. Water and sewer rates did not change from the previous year. Total expenses increased \$1,067,219. \$757,854 of the increase is for accrued interest expense and bonds issuance costs for the 2018 revenue bonds. The increase in expenses before accrued interest expense and bond issuance costs is 2%.

Capital Assets

The Johnson County Special Utility District's investment in capital assets as of December 31, 2018, amounts to \$68,757,605 (net of accumulated depreciation).

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

- \$5,079,367 water and sewer system improvement contributed by developers.
- \$1,909,845 construction costs for the new building.
- \$520,000 water and wastewater system improvements

Johnson County Special Utility District's Capital Assets (Net of Depreciation)

	2018	2017
Land	\$ 875,358	\$ 875,358
Construction in progress	5,405,889	3,338,572
Buildings and building improve	186,842	202,990
Water distribution systems	55,473,119	53,971,386
Sewer distribution systems	6,284,695	5,115,547
Equipment, furniture and fixtures	530,069	496,505
Master Plan	1,633	8,448
	\$ 68,757,605	\$ 64,008,806

Additional information on the District's capital assets can be found on Note 4 in the notes to the financial statements.

Long-Term Debt

The following is the District's Outstanding Debt at December 31, 2018:

Description	2018	2017
Revenue Bonds	\$ 35,594,175	\$ 14,926,903

June 19, 2018, the District issued \$22,000,000 Johnson County Special Utility Revenue Bonds, Series 2018 for smart meter upgrade, pump station and water distribution lines projects.

More detailed information about the District's debt is presented on Note 5 in the notes to financial statements.

Economic Factors and the Next Year's Budgets and Rates

Operating income is budgeted to decrease to \$16,273,516 in the 2019 budget. The 2018 peak season usage propelled JCSUD past the previous record (2011) for total water production which was the hottest, driest year of record. The 2019 Budget income conservatively projects water sales to be closer to an average year for collections. Sewer rates were increased for 2019. Total operating expenses before amortization and depreciation are budgeted to increase to \$13,369,827.

Request for Information

The District's financial statements are designed to provide a general overview of Johnson County Special Utility District's finances. 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 1390, Joshua, Texas 76058.

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JOHNSON COUNTY SPECIAL UTILITY DISTRICT

Statement of Net Position

Proprietary Fund

December 31, 2018

ASSETS

Current Assets	
Cash and cash equivalents	\$ 9,765,030
Certificates of deposit	3,510,000
Accounts receivable (net of allowance for uncollectibles)	1,330,144
Inventory	343,762
Prepaid items	329,263
Restricted assets	
Cash and cash equivalents	27,566,255
Total current assets	42,844,454
Noncurrent Assets	
Other assets:	
Equity interest in joint venture	11,173,187
Capital assets (net of accumulated depreciation)	
Nondepreciable	6,281,247
Depreciable assets	62,476,358
Capital assets, net	68,757,605
Total noncurrent assets	79,930,792
Total assets	\$ 122,775,246

LIABILITIES

Current liabilities	
Accounts payable	\$ 417,473
Accrued expenses	451,845
Accrued payroll liabilities	26,121
Compensated absences payable	33,346
Current liabilities payable from restricted assets	
Interest payable	267,994
Customer deposits payable	1,857,080
Current portion of bonds payable	2,250,000
Total current liabilities	5,303,859
Noncurrent liabilities	
Compensated absences payable	116,156
Bonds payable	33,344,175
Total noncurrent liabilities	33,460,331
Total liabilities	\$ 38,764,190

NET POSITION

Net investment in capital assets	\$ 54,689,237
Restricted for debt service	3,752,849
Unrestricted net position	25,568,970
Total net position	\$ 84,011,056

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

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended December 31, 2018

OPERATING REVENUES

Water sales	\$ 15,437,363
Sewer revenue	1,305,050
Penalties	254,690
Installation fees	339,539
Miscellaneous fees	225,301
Total operating revenues	17,561,943

OPERATING EXPENSES

Water purchases	6,388,057
Personnel	2,443,324
Repair, maintenance and supplies	1,183,265
Utilities and communication	768,760
Other	917,373
Depreciation	3,171,978
Total operating expenses	14,872,757
Operating income (loss)	2,689,186

NONOPERATING REVENUES (EXPENSES)

Gain on sale of assets	2,527
Investment earnings	572,396
Other income	182,128
System development fees	1,282,345
Interest expense	(476,872)
Debt issuance costs	(610,909)
Total nonoperating revenue (expenses)	951,615
Income (loss) before contributions	3,640,801

CAPITAL CONTRIBUTIONS

Capital contributions	5,079,367
Change in net position	8,720,168
Net position - beginning (Restated)	75,290,888
Net position - ending	\$ 84,011,056

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

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 17,623,204
Cash paid to suppliers and service providers	(9,694,251)
Cash paid to employees for salaries and benefits	(2,541,297)
Net cash provided (used) by operating activities	<u>5,387,656</u>
Cash flow from capital and related financing activities:	
Capital outlay	(3,105,478)
Proceeds from sale of capital assets	2,750
Proceeds from issuance of bonds	22,000,000
System development fees	1,282,345
Principal payments on long-term debt	(1,320,000)
Interest paid on bonds	(354,296)
Debt issuance costs	(610,909)
Net cash (used) by capital and related financing activities	<u>17,894,412</u>
Cash flow from investing activities:	
Interest received	572,396
Other income	182,128
Purchase of certificates of deposit	(215,551)
Net cash provided by investing activities	<u>538,973</u>
Net increase (decrease) in cash and cash equivalents	23,821,041
Cash and cash equivalents, January 1, 2018	<u>13,510,244</u>
Cash and cash equivalents, December 31, 2018	<u>\$ 37,331,285</u>
Reconciliation of Operating Income to	
Net Cash Provided (Used) by Operating Activities	
Operating income	\$ <u>2,689,186</u>
Adjustments to reconcile operating income to	
net cash provided (used) by operating activities:	
Depreciation expense	3,171,978
Loss on disposal of capital asset	263,572
(Increase) decrease in accounts receivable	(6,999)
(Increase) decrease in supplies inventory	85,133
(Increase) decrease in prepaid items	15,121
(Increase) decrease in equity interest in joint venture	(747,106)
Increase (decrease) in accounts payable	(212,514)
Increase (decrease) in accrued expenses	158,998
Increase (decrease) in accrued payroll liabilities	(50,380)
Increase (decrease) in compensated absences payable	(47,593)
Increase (decrease) in customer deposits payable	68,260
Total adjustments	<u>2,698,470</u>
Net cash provided by operating activities	<u>\$ 5,387,656</u>
Noncash Investing, Capital and Financial Activities	
Contribution of capital assets by developers	\$ <u>5,079,367</u>
	<u>\$ 5,079,367</u>

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

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

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.

B. Basic Financial Statements – Fund Financial Statements

The financial statements of the District are reported in the proprietary fund financial statements. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, net position, revenues and expenses.

Proprietary Fund

The focus of proprietary fund measurement is on the determination of operating income, changes in net position, financial position, and cash flows. The generally accounting principles applicable are those similar to businesses in the private sector. The following briefly describes the purpose of proprietary fund.

Proprietary fund is required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the grantor have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges to customers for sales and services. Operating expenses include the costs 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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. Receivables

All trade receivables are shown net of an allowance for uncollectibles of \$36,583. Trade accounts receivable in excess of ninety days comprise the allowance for uncollectible trade accounts receivable.

3. Inventory

Inventories of parts and supplies are stated at cost using the first-in-first out method. These inventories are used for repairs and maintenance of the water and sewer systems and are available for sale to customers.

4. Prepaid Items

Payments made to vendors for goods and services that will benefit future periods are recorded as prepaid items in the financial statements.

5. Capital Assets

Capital assets are recorded at cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation. 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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of proprietary fund is included as part of the capitalized value of the assets constructed. There was no interest capitalized during the year.

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

Buildings and building improvements	5 – 40	years
Water system	5 – 40	years
Sewer system	5 – 40	years
Equipment, furniture and fixtures	3 – 20	years
Master plan	5	years

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. 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.

Participating employees have the option to rollover PTO time to the Personal Illness Bank (PIB) for the sake of having leave time available in the case of long-term illness. Employees are encouraged to rollover accrued PTO as a form of insurance to help during such unavoidable events. At termination employees are eligible to receive PIB time if the termination is not a result of a violation of District policy.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as expenses in the current period.

8. Net Position

Net position represents the difference between assets and liabilities. Proprietary fund net position are divided into three components:

- Net investment in capital assets – consist of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets and adding back unspent proceeds.
- Restricted net position – consist of net position that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position are reported in this category.

9. Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of estimates by management that affect reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

NOTE 2: DEPOSITS AND INVESTMENTS

1. Deposits

Custodial Credit Risk for Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government'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 December 31, 2018, the District's deposits were fully insured or collateralized as required by the District's investment policy.

2. Investments

The Texas Public Funds Investment Act 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 depositor institution doing business in the State of Texas; (6) no-load Money Market Mutual Funds; (7) Texas Local Government Investment Pools. During the year ended December 31, 2018, the District did not own any types of securities other than those permitted by its investment policy.

The District invests idle funds in the Logic Local Government Investment Pool, Texstar Local Government Investment Pool, Texas Local Government Investment Pool (Tex-Pool) and Texas Term Local Investment Pool. The City's pools are local government investment pools organized under the authority of the Interlocal Cooperation Act Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. Each pool is governed by an advisory board composed of participants and other persons who do not have a business relationship with the pool. All investments of the pools are stated at amortized cost, which in most cases approximates the market value of the securities. The objective of the pools is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by the State of Texas.

Credit Risk-Investments

The District controls risk by limiting its investments to those instruments described above.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

NOTE 2: DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk-Investments

The District manages interest rate risk by spreading the fair value of its investments over varying maturities. The District's policy sets a maximum of five years on its investments, with no more than 20% of the portfolio extending beyond three years. The District's investments at December 31, 2018, included the following:

Description	Rating	Maturities	Investment	Cost	Market
Logic Pool	AAAm	38 days	67.19%	\$27,355,585	\$27,355,585
TexStar Pool	AAAm	40 days	15.72%	6,400,760	6,400,760
Tex-Pool	AAAm	21 days	7.63%	3,106,101	3,106,101
Texas TERM Pool	AAAf	26 days	0.83%	339,263	339,263
Certificates of Deposit	n/a	n/a	8.62%	3,510,000	3,510,000
Total			100.00%	<u>\$40,711,709</u>	<u>\$40,711,709</u>

The maturities reflected above for the pools are the weighted average maturities of the underlying securities held by the pools.

The pools listed above totaling \$37,201,709 are reporting with cash and cash equivalents in the statement of net position.

NOTE 3: RESTRICTED ASSETS

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or other legal restrictions. Also included are customer deposits which are considered refundable.

Construction funds	\$ 21,688,332
P&I sinking funds	1,500,512
Revenue bond reserves	2,520,331
Customer deposits	<u>1,857,080</u>
	<u>\$ 27,566,255</u>

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non Depreciable Assets:				
Land	\$ 875,358	\$ -	\$ -	\$ 875,358
Construction in progress	3,338,572	3,028,849	(961,532)	5,405,889
Total non-depreciable assets	<u>4,213,930</u>	<u>3,028,849</u>	<u>(961,532)</u>	<u>6,281,247</u>
Depreciable Assets:				
Buildings and building improvements	751,464	5,675	(339,788)	417,351
Water distribution systems	83,525,736	4,111,228	(8,710,688)	78,926,276
Sewer distribution systems	7,450,623	1,487,644	(36,115)	8,902,152
Equipment, furniture and fixtures	2,934,161	249,141	(1,300,450)	1,882,852
Master Plan	33,202	-	-	33,202
Total capital assets being depreciated	<u>94,695,186</u>	<u>5,853,688</u>	<u>(10,387,041)</u>	<u>90,161,833</u>
Accumulated Depreciation:				
Buildings and building improvements	(548,474)	(21,823)	339,788	(230,509)
Water distribution systems	(29,554,350)	(2,609,495)	8,710,688	(23,453,157)
Sewer distribution systems	(2,335,076)	(318,273)	35,892	(2,617,457)
Equipment, furniture and fixtures	(2,437,656)	(215,572)	1,300,445	(1,352,783)
Master Plan	(24,754)	(6,815)	-	(31,569)
Total accumulated depreciation	<u>(34,900,310)</u>	<u>(3,171,978)</u>	<u>10,386,813</u>	<u>(27,685,475)</u>
Business-type activities capital assets, net	<u>\$ 64,008,806</u>	<u>\$ 5,710,559</u>	<u>\$ (961,760)</u>	<u>\$ 68,757,605</u>

NOTE 5: 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 Financial Statements
December 31, 2018

NOTE 5: LONG-TERM LIABILITIES (continued)

Series	Issue Amount	Maturity Date	Interest Rates	Amount Outstanding
2005 Revenue Refunding Bonds	\$ 6,245,000	8/15/2021	3.00% - 4.30%	\$ 600,000
2012 Revenue Refunding Bonds	9,500,000	8/15/2031	.30% - 3.00%	6,920,000
2013 Revenue Refunding and Improvement Bonds	8,510,000	8/15/2031	1.00% - 2.65%	5,880,000
2018 Revenue Bonds (TWDB)	22,000,000	8/15/2038	.38% - 1.82%	22,000,000
Total				<u>\$ 35,400,000</u>

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2019	\$ 2,250,000	\$ 651,404	\$ 2,901,404
2020	2,050,000	576,871	2,626,871
2021	2,055,000	550,029	2,605,029
2022	2,000,000	521,579	2,521,579
2023	1,920,000	494,368	2,414,368
2024-2028	10,110,000	2,003,318	12,113,318
2029-2033	8,900,000	997,895	9,897,895
2034-2038	6,115,000	331,623	6,446,623
	<u>\$ 35,400,000</u>	<u>\$ 6,127,087</u>	<u>\$ 41,527,087</u>

The provisions of the bonds require the District to maintain an interest and sinking account and make monthly transfers from the system account equal to 1/6 of the next maturing interest plus 1/12 of the next maturing principal for debt service payments. The required balance in the interest and sinking account at December 31, 2018, was \$1,088,027 and the actual balance was \$1,500,512.

The provisions of the bonds require the District to maintain reserve accounts with a minimum balance of \$2,470,753. The actual balance in the reserve accounts was \$2,520,331 at December 31, 2018.

The provisions of the bonds require the District to maintain net revenues available for debt service of 1.25 times the average annual debt service. The District is in compliance with this requirement.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

NOTE 5: LONG-TERM LIABILITIES (continued)

The following is a summary of long-term liability transactions of the District for the year ended December 31, 2018:

Description	Beginning			December 31, 2018	Due within one year
	Balance	Additions	Retirements		
Revenue Bonds	\$ 14,720,000	\$ 22,000,000	\$ (1,320,000)	\$ 35,400,000	\$ 2,250,000
Bonds Discounts	(10,706)	-	3,293	(7,413)	-
Bond Premiums	217,609	-	(16,021)	201,588	-
Total Bonds Payable	14,926,903	22,000,000	(1,332,728)	35,594,175	2,250,000
Compensated absences	197,095	149,502	(197,095)	149,502	33,346
Total Long Term Debt	<u>\$ 15,123,998</u>	<u>\$ 22,149,502</u>	<u>\$ (1,529,823)</u>	<u>\$ 35,743,677</u>	<u>\$ 2,283,346</u>

NOTE 6: BRAZOS REGIONAL PUBLIC UTILITY AGENCY (BRPUA)

In January 2012, Johnson County Special Utility District and Acton Municipal Utility District formed BRPUA, a joint venture entity that purchased and operates the Lake Granbury Surface Water and Treatment Center System (SWATS) plant. BRPUA issues audited annual financial statements for its fiscal year, which ends on September 30. Upon dissolution, BRPUA's assets would be distributed proportionally in accordance with the allocated production capacity of the SWATS plant that each participant has contracted to take at that time. The District's investment in the joint venture of \$11,173,187 is based on the District's current 55.308% allocated production capacity.

The District is obligated to BRPUA to make monthly payments sufficient to pay for its allocated portion of operation and maintenance, capital improvements and debt service costs regarding the SWATS plant. The maturities of BRPUA's Contract Revenue Bond Series 2012 (JCSUD), for which the District is responsible for paying through the debt service payments were as follows as of December 31, 2018:

Year Ending December 31	BRPUA Bonds		
	Principal	Interest	Total
2019	\$ 860,000	\$ 105,250	\$ 965,250
2020	880,000	85,900	965,900
2021	900,000	63,900	963,900
2022	910,000	36,900	946,900
2023	320,000	9,600	329,600
Total	<u>\$ 3,870,000</u>	<u>\$ 301,550</u>	<u>\$ 4,171,550</u>

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

NOTE 7: RETIREMENT PLAN

The Johnson County 457 Plan was established under Internal Revenue Services (IRS) Code Section 457(b). Eligible employees may defer the lesser of 100% of their includible compensation for \$18,500 for 2018. In addition to these deferrals, employees at least age fifty may make catch-up contributions of \$6,000 for 2018.

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 \$157,185 for 2018.

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.

NOTE 8: RISK MANAGEMENT

The District is exposed to various risk 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 years.

NOTE 9: CONTRACTS AND COMMITMENTS

1. 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.

2. Brazos River Authority

The District reserves raw water from BRA to make treated water available for its future needs. Under the 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. The agreement ends in 2048.

3. Texas Water Development Board (TWDB) Projects

June 2018 the District issued \$22,000,000 Johnson County Special Utility District Revenue Bonds, Series 2018 that were purchased by the Texas Water Development Board with Drinking Water State Revolving Funds. The bonds were issued for smart meter upgrade, pump station and water distribution lines improvements. \$581,755 has been spent as of December 31, 2018, for loan origination and engineering. In April 2018 the District awarded a \$4.7 million contract for the AMI (Advanced Metering Infrastructure) smart meter system change out portion of the project. In October 2018 the District awarded a contract for construction-manager-at-risk to administer the bundled projects.

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
Notes to Financial Statements
December 31, 2018

NOTE 10: PRIOR PERIOD ADJUSTMENT

Johnson County Special Utility District and Acton Municipal Utility District formed the Brazos Regional Public Utility Agency (BRPUA), a joint venture entity that purchased and operates the Lake Granbury Surface Water and Treatment Center System (SWATS) plant. Johnson County Special Utility District has an ongoing financial interest in the joint venture because it makes annual capital contributions and upon dissolution, BRPUA's assets would be distributed proportionally in accordance with the allocated production capacity of the SWATS plant that each participant has contracted to take at that time. The joint venture should be reporting using the equity method according to GASB Statement No. 14, *The Financial Reporting Entity*, because Johnson County Special Utility District has an ongoing financial interest. In previous years the joint venture was reported at the initial contribution of \$918,644 and subsequent capital contributions were expensed. The beginning net position has been restated to account for the equity method of accounting for the joint venture.

Beginning net position	\$ 65,783,452
Equity in joint venture	<u>9,507,436</u>
Restated beginning net position	<u><u>\$ 75,290,888</u></u>

NOTE 11: EVALUATION OF SUBSEQUENT EVENTS

Subsequent events were evaluated through April 5, 2019, which is the date the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
 Budgetary Comparison Schedule
 Proprietary Fund
 For the Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance with Budget
OPERATING REVENUES			
Water sales	\$ 13,684,150	\$ 15,437,363	\$ 1,753,213
Sewer revenue	1,246,299	1,305,050	58,751
Penalties	233,500	254,690	21,190
Installation fees	200,000	339,539	139,539
Miscellaneous fees	191,450	225,301	33,851
Total operating revenues	<u>15,555,399</u>	<u>17,561,943</u>	<u>2,006,544</u>
OPERATING EXPENSES			
Water purchases	7,678,366	6,388,057	(1,290,309)
Personnel	2,768,610	2,443,324	(325,286)
Repair, maintenance and supplies	800,000	1,183,265	383,265
Utilities and communication	682,000	768,760	86,760
Other	886,208	917,373	31,165
Depreciation	3,219,431	3,171,978	(47,453)
Total operating expenses	<u>16,034,615</u>	<u>14,872,757</u>	<u>(1,161,858)</u>
Operating income (loss)	<u>(479,216)</u>	<u>2,689,186</u>	<u>3,168,402</u>
NONOPERATING REVENUES (EXPENSES)			
Gain on sale of assets	25,000	2,527	(22,473)
Investment earnings	140,000	572,396	432,396
Other income	116,919	182,128	65,209
System development fees	923,200	1,282,345	359,145
Interest expense	(329,927)	(476,872)	(146,945)
Debt issuance costs	-	(610,909)	(610,909)
Total nonoperating revenue (expenses)	<u>875,192</u>	<u>951,615</u>	<u>76,423</u>
Income (loss) before contributions	395,976	3,640,801	3,244,825
CAPITAL CONTRIBUTIONS			
Capital contributions	<u>-</u>	<u>5,079,367</u>	<u>5,079,367</u>
Change in net position	<u>\$ 395,976</u>	<u>\$ 8,720,168</u>	<u>\$ 8,324,192</u>

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
SCHEDULE OF INSURANCE IN FORCE
December 31, 2018

INSURER	RISK COVERED	POLICY AMOUNT	EXPIRATION
Texas Municipal League	Worker's compensation	1,973,138	December 1, 2019
	General liability	\$2,000,000 / \$4,000,000	December 1, 2019
	Sudden events involving pollution	2,000,000 / 4,000,000	December 1, 2019
	Errors and omissions	5,000,000 / 10,000,000	December 1, 2019
	Automobile liability	1,000,000	December 1, 2019
	Auto physical damage	varies per vehicle	December 1, 2019
	Supplemental sewage backup	25,000 / 50,000	December 1, 2019
	Cyber Liability & Data Breach	25,000 / 50,000	December 1, 2019
	Real and personal property	45,633,536	December 1, 2019
	Boiler and machinery	2,486,300	December 1, 2019
	Mobile equipment	367,588	December 1, 2019
	Public employee dishonesty	1,000,000	December 1, 2019
	Forgery or alteration	100,000	December 1, 2019
	Theft, disappearance, and destruction	30,000	December 1, 2019
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, 2018
(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	\$4.25	0-5,000
				5.25	5,001-10,000
				6.25	10,001 plus
Sewer (*)	\$21	N/A	N	\$4.00	0-10,000

District employs winter averaging for sewer usage? No

Total water charges per 10,000 gallons usage: water \$80.50; sewer \$61.00 (maximum)

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into system:	1,901,010
Gallons billed and unbilled:	1,661,344
Water accountability ratio:	87.4%
4. Retail water connections within the District as of the fiscal year end.

<u>Meter Size</u>	<u>Total Meters</u>	<u>Active Meters</u>	<u>SUE Factor</u>	<u>Active SUE's</u>
<=5/8"	16,700	15,291 x	1.0	15,291
3/4"	37	36 x	1.3	47
1"	174	159 x	2.2	350
1 1/2"	22	21 x	4.0	84
2"	60	53 x	10.0	530
3"	10	9 x	20.0	180
4"	8	6 x	40.0	240
6"	5	5 x	64.0	320
Total Water	17,016	15,580		17,042
Total Sewer	2,587	1,951 x	1.0	1,951

(*) 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, 2018

	<u>Identification Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>% of Total</u>
LOGIC	No. 001	Market	On demand	\$ 160,954	
	No. 002	Market	On demand	4,123,652	
	No. 003	Market	On demand	103,610	
	No. 006	Market	On demand	1,295,027	
	No. 001	Market	On demand	21,672,342	
			<u>27,355,585</u>	<u>67.3%</u>	
TexSTAR	No. 110	Market	On demand	5,479	
	No. 330	Market	On demand	4,564,588	
	No. 550	Market	On demand	1,830,693	
			<u>6,400,760</u>	<u>15.7%</u>	
Texas DAILY		Market	On demand	<u>339,263</u>	<u>0.8%</u>
TexPool	No. 002	Market	On demand	1,500,512	
	No. 005	Market	On demand	380,285	
	No. 008	Market	On demand	667,188	
	No. 009	Market	On demand	558,116	
			<u>3,106,101</u>	<u>7.6%</u>	
Pinnacle Bank Money Market		0.35%	N/A	<u>5,075</u>	<u>0.00%</u>
Certificates of Deposit	Multi Bk Securities - 17 CD's	Market	to 2021	<u>3,510,000</u>	<u>8.6%</u>
Total				<u><u>\$ 40,716,784</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, 2018

Fiscal Year Ended December 31	2005 Revenue Refunding Bonds ⁽¹⁾			2012 Revenue Bonds ⁽¹⁾		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 410,000	\$ 25,185	\$ 435,185	\$ 455,000	\$ 167,650	\$ 622,650
2020	105,000	8,170	113,170	465,000	158,550	623,550
2021	85,000	3,655	88,655	475,000	149,250	624,250
2022	-	-	-	485,000	139,750	624,750
2023	-	-	-	500,000	130,050	630,050
2024	-	-	-	515,000	120,050	635,050
2025	-	-	-	525,000	108,463	633,463
2026	-	-	-	540,000	96,650	636,650
2027	-	-	-	555,000	83,150	638,150
2028	-	-	-	575,000	69,275	644,275
2029	-	-	-	590,000	54,900	644,900
2030	-	-	-	610,000	37,200	647,200
2031	-	-	-	630,000	18,900	648,900
2032						
2033						
2034						
2035						
2036						
2037						
2038						
	<u>\$ 600,000</u>	<u>\$ 37,010</u>	<u>\$ 637,010</u>	<u>\$ 6,920,000</u>	<u>\$ 1,333,838</u>	<u>\$ 8,253,838</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)

2013 Revenue and Refunding Bonds ⁽¹⁾			2018 TWDB Bonds			Total Debt Service Requirements	% of Principal Retired
Principal	Interest	Total	Principal	Interest	Total		
\$ 465,000	\$ 129,963	\$ 594,963	\$ 920,000	\$ 328,607	\$ 1,248,607	2,901,405	
475,000	122,987	597,987	1,005,000	287,163	1,292,163	2,626,870	
485,000	115,388	600,388	1,010,000	281,736	1,291,736	2,605,029	17.95%
500,000	106,657	606,657	1,015,000	275,172	1,290,172	2,521,579	
395,000	96,658	491,658	1,025,000	267,660	1,292,660	2,414,368	
405,000	88,165	493,165	1,030,000	259,256	1,289,256	2,417,471	
415,000	79,052	494,052	1,040,000	249,264	1,289,264	2,416,779	40.13%
425,000	69,300	494,300	1,055,000	237,720	1,292,720	2,423,670	
435,000	59,100	494,100	1,065,000	224,744	1,289,744	2,421,994	
450,000	48,443	498,443	1,080,000	210,686	1,290,686	2,433,404	
465,000	37,192	502,192	1,095,000	195,674	1,290,674	2,437,766	
475,000	25,335	500,335	1,110,000	179,796	1,289,796	2,437,331	
490,000	12,985	502,985	1,125,000	163,036	1,288,036	2,439,921	76.20%
			1,145,000	145,598	1,290,598	1,290,598	
			1,165,000	127,278	1,292,278	1,292,278	
			1,180,000	108,056	1,288,056	1,288,056	
			1,200,000	87,996	1,287,996	1,287,996	89.45%
			1,225,000	67,116	1,292,116	1,292,116	
			1,245,000	45,433	1,290,433	1,290,433	
			1,265,000	23,023	1,288,023	1,288,023	100.00%
<u>\$ 5,880,000</u>	<u>\$ 991,225</u>	<u>\$ 6,871,225</u>	<u>\$22,000,000</u>	<u>\$ 3,765,014</u>	<u>\$25,765,014</u>	<u>\$ 41,527,087</u>	

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
Five Years Ended December 31, 2018

	Amounts					Percent of Fund Total Revenues				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Operating Revenues										
Water sales	\$ 12,548,132	\$ 12,753,026	\$ 12,610,422	\$ 13,921,186	\$ 15,437,363	86.7	87.4	87.5	87.7	87.9
Fire hydrant meter water sales	165,258	-	-	-	-	1.1	-	-	-	-
Sewer revenues	1,075,121	1,129,415	1,234,598	1,268,534	1,305,050	7.4	7.7	8.6	8.0	7.4
Penalties	245,456	253,601	232,984	242,888	254,690	1.7	1.7	1.6	1.5	1.5
Installation fees	133,020	135,288	164,048	232,548	339,539	0.9	0.9	1.1	1.5	1.9
Miscellaneous	299,554	326,417	175,298	201,425	225,301	2.1	2.2	1.2	1.3	1.3
Total Revenues	<u>14,466,541</u>	<u>14,597,747</u>	<u>14,417,350</u>	<u>15,866,581</u>	<u>17,561,943</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Operating Expenses:										
Water purchases	7,898,411	8,265,385	6,156,820	6,641,246	6,388,057	54.6	56.6	42.7	41.9	36.4
Personnel services	2,163,209	2,389,123	2,506,633	2,524,830	2,443,324	15.0	16.4	17.4	15.9	13.9
Repair, maintenance and supplies	807,274	734,081	659,054	870,910	1,183,265	5.6	5.0	4.6	5.5	6.7
Utilities and communication	711,131	696,930	662,079	719,035	768,760	4.9	4.8	4.6	4.5	4.4
Other	628,873	627,637	766,460	881,976	917,373	4.3	4.3	5.3	5.6	5.2
Operating Expenses Excluding Depreciation and amortization	<u>12,208,898</u>	<u>12,713,156</u>	<u>10,751,046</u>	<u>11,637,997</u>	<u>11,700,779</u>	<u>84.4</u>	<u>87.1</u>	<u>74.6</u>	<u>73.3</u>	<u>66.6</u>
Operating Income before Depreciation and amortization	<u>2,257,643</u>	<u>1,884,591</u>	<u>3,666,304</u>	<u>4,228,584</u>	<u>5,861,164</u>	<u>15.6</u>	<u>12.9</u>	<u>25.4</u>	<u>26.7</u>	<u>33.4</u>
Depreciation and Amortization:	<u>2,395,717</u>	<u>2,820,344</u>	<u>2,870,202</u>	<u>2,894,213</u>	<u>3,171,978</u>	<u>16.6</u>	<u>19.3</u>	<u>19.9</u>	<u>18.2</u>	<u>18.1</u>
Operating Income (Loss)	<u>(138,074)</u>	<u>(935,753)</u>	<u>796,102</u>	<u>1,334,371</u>	<u>2,689,186</u>	<u>(1.0)</u>	<u>(6.4)</u>	<u>5.5</u>	<u>8.4</u>	<u>15.3</u>
Nonoperating Revenues (Expenses):										
Gain (loss) on sale of assets	39,452	27,445	26,131	61,659	2,527	0.3	0.2	0.2	0.4	-
Investment earnings	29,518	19,319	59,017	129,394	572,396	0.2	0.1	0.4	0.8	3.3
Other income	243,968	300,000	180,020	674,363	182,128	1.7	2.1	1.2	4.3	1.0
System development fees	420,759	691,420	638,660	918,600	1,282,345	2.9	4.7	4.4	5.8	7.3
Interest expense	(224,993)	(427,225)	(393,260)	(361,109)	(476,872)	(1.6)	(2.9)	(2.7)	(2.3)	(2.7)
Bond issuance costs	-	-	-	-	(610,909)	-	-	-	-	(3.5)
Total Nonoperating Revenues (Expenses)	<u>508,704</u>	<u>610,959</u>	<u>510,568</u>	<u>1,422,907</u>	<u>951,615</u>	<u>3.5</u>	<u>4.2</u>	<u>3.5</u>	<u>9.0</u>	<u>5.4</u>
Income (Loss) Before Capital Contributions and Extraordinary Item	370,630	(324,794)	1,306,670	2,757,278	3,640,801	2.6	(2.2)	9.1	17.4	20.7
Capital contributions	51,990	274,770	2,496,019	1,010,942	5,079,367	0.4	1.9	17.3	6.4	28.9
Changes in Net Position	<u>\$ 422,620</u>	<u>\$ (50,024)</u>	<u>\$ 3,802,689</u>	<u>\$ 3,768,220</u>	<u>\$ 8,720,168</u>	<u>2.9</u>	<u>(0.3)</u>	<u>26.4</u>	<u>23.7</u>	<u>49.7</u>
Active Water Customers	14,320	14,411	14,738	15,132	15,580					
Active Sewer Customers	1,777	1,827	1,891	1,901	1,951					

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
CONDENSED SUMMARY OF OPERATING RESULTS
(CALCULATION BASED ON BOND RESOLUTION REQUIREMENTS)
December 31, 2018

	Fiscal Year Ended December 31,				
	2014	2015	2016	2017	2018
<u>Gross Revenues</u>					
Water Sales	\$12,548,132	\$12,753,026	\$12,610,422	\$ 13,921,186	\$ 15,437,363
Fire Revenue	165,258	-	-	-	-
Sewer Revenue	1,075,121	1,129,415	1,234,598	1,268,534	1,305,050
Interest Income	29,518	19,319	59,017	129,394	572,396
Other Revenue	1,382,209	1,734,171	1,417,141	2,331,483	2,286,530
Total Gross Revenues	<u>\$15,200,238</u>	<u>\$15,635,931</u>	<u>\$15,321,178</u>	<u>\$ 17,650,597</u>	<u>\$ 19,601,339</u>
<u>Operating Expenses</u> ⁽¹⁾:					
Treated Water	\$ 7,269,626	\$ 7,613,383	\$ 5,501,863	\$ 5,970,177	\$ 5,695,275
Brazos River Authority Contracts	628,785	652,002	654,957	671,069	692,782
Other	4,310,487	4,447,771	4,594,226	4,996,751	5,312,722
Total Operating Expenses	<u>\$12,208,898</u>	<u>\$12,713,156</u>	<u>\$10,751,046</u>	<u>\$ 11,637,997</u>	<u>\$ 11,700,779</u>
Net Available For Debt Service	<u>\$ 2,991,340</u>	<u>\$ 2,922,775</u>	<u>\$ 4,570,132</u>	<u>\$ 6,012,600</u>	<u>\$ 7,900,560</u>
Active Water Customers	14,320	14,411	14,738	15,132	15,580
Active Sewer Customers	1,777	1,827	1,891	1,901	1,951

⁽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, 2018
 (Unaudited)

Complete District Mailing Address: PO Box 1390, Joshua, Texas 76058
 District Business Telephone Number: (817) 760-5200
 Submission Date of the Most Recent District Registration Form: 04/18/2018
 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	\$ 406	Vice-President
Michael Bowles	2016 - 2019	\$ 934	Secretary / Treasurer
Harry Shaffer	2018 - 2021	\$ -	Assistant Secretary / Treasurer
Richard Connelly	2015 - 2017	\$ -	Director
Jack Beavers	2015 - 2018	\$ 901	Director
Eric Baze	2017 - 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, 2018
 (Unaudited)

Management Team	Date Hired	Fees and Expense Reimbursements*	Title at Year End
Terry D. Kelley	11/23/92	\$ 847	General Manager
Dana Collier	04/04/17	120	System Development Manager
Danny Armstrong	12/09/02	-	System Operations Manager
Kathy L. Rice	10/23/13	-	Controller / Accounting Manager
Josh Howard	02/01/16	134	Utilities Services Manager

Consultants

Anthony Bennett		6,695	Attorney
Cain & Associates, P.C.		11,281	Attorney
Jackson Walker LLP		21,091	Attorney
Yeldell, Wilson, Wood & Reeve, P.C.		19,455	Auditor
Specialized Public Finance Inc.		-	Financial Advisor
Municipal Engineers & Mgmt.		42,090	Engineer
Kimley-Horn & Associates, Inc.		34,437	Engineer

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
ANNUAL MATERIAL EVENT DISCLOSURE CHECKLIST
December 31, 2018
(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?

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STATISTICAL SECTION

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>	35 - 37	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>	38 - 42	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>	43 - 44	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>	45 - 46	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>	47 - 50	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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Position:										
Net investment in capital assets	\$ 29,090,575 ^a	\$ 30,441,483 ^c	\$ 31,580,199 ^e	\$ 37,337,910 ^g	\$ 41,235,467 ^j	\$ 43,088,093	\$ 43,883,656	\$ 48,120,547 ^l	\$ 49,081,903 ^m	\$ 54,689,237 ⁿ
Restricted for debt service	546,209	550,809	515,815	703,727 ^h	1,071,716 ^k	1,283,535	1,501,144	1,729,039	2,003,790	3,752,849 ^o
Unrestricted	3,446,687 ^b	6,225,232 ^d	10,073,892 ^f	14,776,114 ⁱ	14,693,631	13,890,939	12,827,743	12,165,646	14,697,759	25,568,970 ^p
Total Net Position	<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>	<u>\$ 65,783,452</u>	<u>\$ 84,011,056</u>

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

^b 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.

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

^d 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.

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

^f 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.

^g 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.

^h 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).

ⁱ 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.

^j 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.

^k 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.

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

^m During fiscal year 2017, increase in improvements to the water distribution systems and capital contributed by developers.

ⁿ During fiscal year 2018, increase in improvements to the water distribution systems, construct new facility and capital contributed by developers.

^o During fiscal year 2018, issued new revenue bonds and increased the bond reserve

^p During fiscal year 2018, adjusted the equity interest in joint venture asset for equity method of accounting.

Table 2

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

	FISCAL YEAR									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Revenues:										
Water sales	\$ 10,648,475	\$ 11,477,284 ^d	\$ 14,024,137 ^g	\$ 12,532,895 ^j	\$ 12,801,892 ^m	\$ 12,548,132	\$ 12,753,026	\$ 12,610,422	\$ 13,921,186	\$ 15,437,363
Fire hydrant meter water sales	620,140 ^a	965,536	627,149 ^a	291,365 ^a	177,865	165,258	-	-	-	-
Sewer revenues	939,876	987,601	1,064,181 ^g	1,033,085 ^j	1,038,053	1,075,121	1,129,415	1,234,598	1,268,534	1,305,050
Penalties	221,487	232,097	272,137	240,374	249,861	245,456	253,601	232,984	242,888	254,690
Installation fees	106,675	91,179	106,732	108,099	96,917	133,020	135,288	164,048	232,548	339,539
Miscellaneous	317,227	300,605	243,257	209,376	224,415	299,554	326,417	175,298	201,425	225,301
Total Operating Revenues	<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>	<u>15,866,581</u>	<u>17,561,943</u>
Operating Expenses:										
Water purchases	7,574,537	5,813,784 ^e	7,032,436 ^h	6,810,261	5,845,474 ⁿ	7,898,411	8,265,385	6,156,820 ^s	6,641,246 ^t	6,388,057 ^u
Personnel services	1,963,760 ^b	1,903,487	1,880,702	2,017,039	2,079,327	2,163,209	2,389,123	2,506,633	2,524,830	2,443,324
Repair, maintenance and supplies	667,565	532,778	587,843	672,861	646,738	807,274	734,081	659,054	870,910	1,183,265
Utilities and communication	595,963	620,988	615,459	523,349	541,600	711,131	696,930	662,079	719,035	768,760
Other expenses	606,286	526,065	588,489	604,639	577,731	628,873	627,637	766,460	881,976	917,373
Depreciation and amortization	1,821,325	199,379	1,956,682	2,095,588	2,096,605	2,395,717	2,820,344	2,870,202	2,894,213	3,171,978
Total Operating Expenses	<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>	<u>14,532,210</u>	<u>14,872,757</u>
Operating Income (Loss)	<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>	<u>1,334,371</u>	<u>2,689,186</u>
Nonoperating Revenues (Expenses):										
Gain (loss) on sale of assets	12,663	38,400	23,361	(1,555)	46,518	39,452	27,445	26,131	61,659	2,527
Investment earnings	84,236 ^c	54,494	35,703	36,746	48,823	29,518	19,319	59,017	129,394	572,396 ^v
Other income	-	-	-	-	-	243,968 ^q	300,000 ^r	180,020	674,363	182,128
System development fees	454,619	345,966	392,375	513,405	473,701	420,759	691,420	638,660	918,600	1,282,345
Interest expense	(329,955)	(303,363)	(262,985)	(239,032)	(149,203) ^o	(224,993)	(427,225)	(393,260)	(361,109)	(476,872)
Bond issuance costs	-	-	(57,538)	(135,666)	(106,168)	-	-	-	-	(610,909)
Total Nonoperating Revenues (Expenses)	<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>	<u>1,422,907</u>	<u>951,615</u>
Income (Loss) Before Capital Contributed and Extraordinary Item	<u>(153,993)</u>	<u>4,593,318</u>	<u>3,806,898</u>	<u>1,865,355</u>	<u>3,115,199</u>	<u>370,630</u>	<u>(324,794)</u>	<u>1,306,670</u>	<u>2,757,278</u>	<u>3,640,801</u>
Capital Contributed	908,976	1,260,735 ^f	1,145,484 ⁱ	2,782,488 ^k	1,067,864 ^p	51,990	274,770	2,496,019	1,010,942	5,079,367
Extraordinary Item	-	-	-	6,000,000 ^l	-	-	-	-	-	-
Change in Net Position	<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>	<u>\$ 3,768,220</u>	<u>\$ 8,720,168</u>

- ^a Decline in gas drilling activity in the area.
- ^b Increases in employee benefit costs, pay increases and two key personnel positions added in the last quarter of fiscal year 2008.
- ^c 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.
- ^d 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.
- ^e During fiscal year 2010, the District received \$1,620,330 from the Brazos River Authority for fiscal year 2009-2010 expense adjustments.
- ^f 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.
- ^g Water and Sewer sales increased due to a rate increase implemented January 2011 and increased volume due to drought conditions.
- ^h 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.
- ⁱ Capital contributed increased due the completion of a \$816K commercial development project.
- ^j Water and Sewer sales decreased due to a decline in drought conditions.
- ^k \$2.3M for partial completion of the NTTA/TxDOT 121 project.
- ^l Settlement received for lost capacity at the Lake Granbury Surface Water Treatment Plant.
- ^m Temporary assignment sale of 8,000 acre feet of raw water in 2011 and 4,000 acre feet of raw water in 2013.
- ⁿ 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.
- ^o 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).
- ^p \$703K for remaining costs of the completed NTTA/TxDOT 121 project.
- ^q In 2014, the District received \$244K for the sale of CCN to the City of Ft. Worth.
- ^r In 2015, the District received \$300K for the sale of CCN to the City of Mansfield.
- ^s In 2016, the District received a refund in the amount of \$864K from the PUA for over payment to O & M and Capital improvements.
- ^t In 2017, the District received a refund in the amount of \$534K from the PUA for over payment to O & M and Capital improvements.
- ^u In 2018, the District received a refund in the amount of \$567K from the PUA for over payment to O & M and Capital improvements.
- ^v Increase in Interest Income is due to the U.S. economy experiencing the best hike in savings & CD rates since 2008.

Table 3

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

Fiscal Year	Monthly Revenue/Customer	
	Water	Wastewater
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
2017	76.00	54.00
2018	74.00	54.00

Source: District Annual Financial Audits

Table 4

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

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	2.03%
Ray Richey Management	Energy Exploration & Production	21,878,100	1.57%	136,384	1.10%
Bridgeport Tank Trucks	Energy Exploration & Production	20,071,910	1.44%	118,446	0.95%
Chesapeake Operating Company	Energy Exploration & Production	14,865,890	1.07%	94,608	0.76%
Southwest Water Co *	Mobile Home Park	7,062,050	0.51%	59,704	0.48%
CT & Sallie Chien	Mobile Home Park	6,690,870	0.49%	48,632	0.39%
Godley ISD	School ISD	6,609,080	0.48%	37,086	0.30%
Vanderra Resources	Energy Exploration & Production	6,187,800	0.45%	38,509	0.31%
David Zulejkc	Multi Family Units	3,983,490	0.29%	33,443	0.27%
Pecan Village Mobile Home Park	Mobile Home Park	3,688,060	0.27%	22,803	0.18%
		131,194,320	9.44%	\$ 841,952	6.77%
	Total Usage	1,401,854,000			
	Total Water Sales			\$ 12,442,820	

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	4.26%
Chesapeake Operating Company	Energy Exploration & Production	38,073,850	2.65%	240,103	1.64%
Bridgeport Tank Trucks	Energy Exploration & Production	19,249,570	1.34%	119,936	0.82%
Joshua ISD	School ISD	9,813,320	0.68%	125,385	0.86%
Godley ISD	School ISD	9,227,890	0.64%	55,496	0.38%
CT & Sallie Chien	Mobile Home Park	6,419,500	0.45%	39,636	0.27%
Sabre Communications	Industrial Manufacturing	5,063,590	0.35%	34,661	0.24%
Monarch Utilities *	Investor-owned Utility Provider	4,880,420	0.34%	74,303	0.51%
Kodiak Constructors	Construction	4,851,400	0.34%	30,605	0.21%
Devon Energy	Energy Exploration & Production	4,680,260	0.33%	29,844	0.20%
		201,391,930	14.01%	\$ 1,373,518	9.39%
	Total Usage	1,439,073,000			
	Total Water Sales			\$ 14,651,286	

* Monarch Utilities was formerly reported as Southwest Water Co

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	1.86%
EOG Resources	Energy Exploration & Production	33,428,160	2.00%	222,734	1.74%
Monarch Utilities *	Investor-owned Utility Provider	15,947,390	0.95%	162,924	1.27%
Bridgeport Tank Trucks	Energy Exploration & Production	12,745,810	0.76%	83,127	0.65%
City of Alvarado	Municipality	12,168,700	0.73%	346,545	2.70%
City of Joshua	Municipality	9,145,900	0.55%	62,252	0.49%
Joshua ISD	School ISD	8,491,180	0.51%	104,397	0.81%
CT & Sallie Chien	Mobile Home Park	7,064,100	0.42%	43,535	0.34%
Godley ISD	School ISD	5,969,540	0.36%	40,616	0.32%
Norwood Land Services	Energy Exploration & Production	5,286,100	0.32%	34,470	0.27%
		146,588,990	8.78%	\$ 1,339,206	9.14%
	Total Usage	1,670,652,000			
	Total Water Sales			\$ 12,824,260	

Table 4 (continued)

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

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	1.28%
City of Alvarado	Municipality	20,210,600	1.44%	376,702	2.90%
Granite Construction	Construction	14,841,030	1.06%	97,527	0.75%
Monarch Utilities *	Investor-owned Utility Provider	10,715,510	0.76%	135,456	1.04%
City of Keene	Municipality	9,405,000	0.67%	145,127	1.12%
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	0.71%
Sabre Communications	Industrial Manufacturing	7,696,300	0.55%	49,716	0.38%
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	9.34%
	Total Usage	1,404,835,000			
	Total Water Sales			\$ 12,979,757	

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	

* Monarch Utilities was formerly reported as Southwest Water Co

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	

Table 4 (continued)

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

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	

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 *	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

FISCAL YEAR 2017					
<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	65,842,000	4.81%	\$ 517,271	3.72%
Stonetown Ranches of Joshua	Mobile Home Park	23,592,480	1.73%	325,628	2.34%
Prairieland DC LaSalle Corrections	Corrections Facility	9,953,810	0.74%	68,897	0.49%
City of Joshua	Municipality	8,760,550	0.65%	75,930	0.55%
Monarch Utilities *	Investor-owned Utility Provider	8,266,550	0.61%	114,379	0.82%
Joshua ISD	School ISD	7,276,860	0.54%	126,261	0.91%
Walnut Creek Mobile Home Comm	Mobile Home Park	6,042,240	0.45%	57,853	0.42%
Sabre Communications Corp	Commercial	4,971,360	0.37%	46,203	0.33%
Cypress Creek Joshua Station LP	Apartment Complex	4,461,380	0.34%	78,328	0.56%
Godley ISD	School ISD	3,609,420	0.27%	30,506	0.22%
		142,776,650	10.51%	\$ 1,441,256	10.35%
	Total Usage	1,371,766,000			
	Total Water Sales			\$ 13,921,186	

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

FISCAL YEAR 2018					
Customer	Type of Industry	Water Usage	% of Total Unaudited Water Usage	Water Revenue	% of Total Unaudited Water Revenue
City of Keene	Municipality	110,748,000	8.08%	\$ 716,846	5.15%
City of Alvarado	Municipality	17,503,000	1.29%	393,559	2.83%
Monarch Utilities *	Investor-Owned Utility Provider	17,336,640	1.27%	176,004	1.26%
Stonetown Ranches of Joshua	Mobile Home Park	15,532,190	1.14%	124,183	0.89%
Prairieland DC LaSalle Corrections	Corrections Facility	15,433,210	1.14%	106,105	0.76%
Bethany Special Utility District	Municipality	10,684,000	0.79%	205,747	1.48%
Cypress Creek Joshua Station LP	Apartment Complex	9,032,680	0.67%	67,441	0.48%
City of Joshua	Municipality	8,727,670	0.65%	71,300	0.51%
Joshua ISD	School ISD	7,654,360	0.57%	93,479	0.67%
Godley ISD	School ISD	6,530,180	0.49%	49,592	0.36%
		219,181,930	16.09%	\$ 2,004,255	14.40%
	Total Usage	1,661,343,712			
	Total Water Sales			\$ 15,437,363	

* 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

Table 5

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

Fiscal Year						
Ended	Bonds	Note	Capital Lease	Total	Total ⁽¹⁾	Debt Per
December 31,	Payable	Payable	Payable	Indebtedness	Customers	Customer
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	14,320	1,342
2015	17,727,353	-	-	17,727,353	14,411	1,230
2016	16,224,628	-	-	16,224,628	14,738	1,101
2017	14,926,903	-	-	14,926,903	15,132	986
2018	35,594,175	-	-	35,594,175	15,580	2,285 ⁽³⁾

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.
- ⁽³⁾ The District received proceeds of \$22 million at 1.54%, from the TWDB's DWSRF (TX. Water Development Board's Drinking Water State Revolving Fund) program for the new AMI (Advanced Metering Infrastructure) and 23 improvement projects. The AMI project is for smart meters that will give the customers the ability to see their current usage on demand and in turn help in water conservation. The improvement projects will help in areas of growth in the system, maintenance issues and improving the water distribution, with the completion scheduled for 2020.

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
2009	13,392,735	11,738,066	1,654,669	884,679	1.87
2010	14,454,762	9,700,465	4,754,297	883,216	5.38
2011	16,765,671	10,969,586	5,796,085	1,483,863	3.91
2012	20,965,345	10,872,414	10,092,931	946,577	10.66
2013	15,111,527	9,946,241	5,165,286	3,047,403	1.69
2014	15,200,238	12,433,891	2,766,347	1,972,630	1.40
2015	15,635,931	13,140,381	2,495,550	1,927,917	1.29
2016	15,321,178	11,144,305	4,176,873	1,908,339	2.19
2017	17,650,597	11,999,106	5,651,491	1,670,397	3.38
2018	19,601,339	11,700,779	7,900,560	2,076,354	3.81

⁽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
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
2017	15,132	1,901
2018	15,580	1,951

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
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%
2017	165,907	7,394,309	44,569	3.4%
2018	167,301	6,682,169	39,941	4.0%

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, 2018 (unaudited)

HISTORICAL WATER USAGE (mgd)				
Fiscal Year Ended December 31,	Average Daily Usage	Peak Day Usage	Total Usage	Number of Water Customers
2009	3.84	8.66	1401.9	13,711
2010	3.94	7.98	1439.1	13,705
2011	4.58	9.66	1670.7	13,834
2012	3.85	8.19	1404.8	13,923
2013	3.88	7.85	1414.6	14,105
2014	3.78	8.99	1380.0	14,320
2015	3.69	9.04	1348.0	14,411
2016	3.48	7.48	1270.3	14,738
2017	3.76	7.00	1371.8	15,132
2018	4.55	10.09	1661.3	15,580

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
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
2017	0.3	0.7	106.7	1,901
2018	0.4	1.0	159.9	1,951

Source:
 District Billing System
 Monthly Operations Report

Table 10

JOHNSON COUNTY SPECIAL UTILITY DISTRICT
BUDGETED FULL-TIME EMPLOYEES BY FUNCTION
 December 31, 2018 (unaudited)

Fiscal Year Ended December 31,	Administrative	Water	Wastewater	Total
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
2017	19	17	4	40
2018	17	17	4	38

Source: District Payroll System

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

	FISCAL YEAR									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Water										
Land	\$ 335,073	\$ 414,267	\$ 448,715	\$ 499,490	\$ 526,732	\$ 530,120	\$ 571,557	\$ 537,195	\$ 673,827	\$ 673,827
Water Wells and Distribution System	29,931,445	29,754,182	30,723,525	32,101,159	35,311,026	55,349,138	54,353,992	54,866,872	53,740,448	55,325,189
Equipment	301,357	263,972	219,956	176,315	133,539	149,665	124,118	266,772	206,263	129,591
Master plan	37,365	27,401	17,437	7,473	-	18,921	14,380	9,839	5,298	757
Total Water	30,605,240	30,459,822	31,409,633	32,784,437	35,971,297	56,047,844	55,064,047	55,680,678	54,625,836	56,129,364
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	20,522	5,926
Lift Stations and Distribution System	1,865,585	1,764,001	2,187,280	2,912,835	2,829,389	2,797,001	2,746,162	3,624,350	3,529,759	4,767,334
Wastewater Treatment Plant	1,103,728	1,044,014	1,008,263	931,685	2,199,769	2,130,051	2,022,174	1,929,339	1,816,729	1,665,286
Vehicles	201,718	176,763	151,808	126,853	101,899	96,980	86,369	38,980	29,549	20,118
Equipment	255,829	207,839	207,839	295,709	256,329	266,072	221,098	117,564	90,898	163,000
Master plan	39,610	30,290	20,970	11,650	2,330	9,447	7,348	5,249	3,149	875
Total Wastewater	3,516,909	3,063,666	3,622,917	4,323,647	5,432,790	5,340,784	5,122,732	5,753,032	5,505,446	6,637,378
General										
Land	17,325	-	-	-	-	152,329	152,329	186,691	186,691	186,691
Buildings and Structures	307,108	291,143	273,143	263,860	251,049	237,954	223,057	201,083	182,468	180,917
Vehicles	171,868	144,047	140,746	183,653	202,740	162,478	144,700	145,106	109,997	157,479
Office Furniture and Equipment	176,135	138,771	126,768	112,274	69,914	81,806	104,402	89,661	59,796	59,887
Total General	672,436	573,961	540,657	559,787	523,703	634,567	624,488	622,541	538,952	584,973
Total Capital Assets	\$ 34,794,585	\$ 34,097,449	\$ 35,573,207	\$ 37,667,871	\$ 41,927,790	\$ 62,023,195	\$ 60,811,267	\$ 62,056,251	\$ 60,670,234	\$ 63,351,715

Note: Balances presented are net of accumulated depreciation, amortization and construction in progress

Source: District Fixed Asset System

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

	FISCAL YEAR									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Water										
Water storage capacity-Elevated (MG)	4	4	5	5	5	5	5	5	5	5
Water storage capacity-Ground (MG)	4	4	4	7	7	9	9	9	9	9
Miles of water mains	848	854	859	888	901	926	926	926	932	940
Number of active wells	20	20	20	20	20	21	21	21	21	21
Production (MG)	1,560	1,616	1,898	1,667	1,578	1,634	1,619	1,550	1,666	1,901
Billed and unbilled consumption (MG)	1,402	1,439	1,707	1,435	1,415	1,442	1,375	1,288	1,422	1,661
Water loss ratio	89.9%	89.0%	89.9%	86.1%	89.7%	88.2%	84.9%	83.1%	85.3%	87.4%
Available Supply Capacity (MG)	19.0	24.0	24.8	24.8	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	8	8	8	8	8	8	8	7
Miles of sewer mains	41	41	42	43	45	45	45	45	45	48
Annual engineering maximum plant capacity (MG)	256	256	256	256	256	256	256	256	284	284
Amount treated annually (MG)	136	148	121	132	130	125	162	146	125	160
Unused capacity (MG)	120	108	135	123	126	131	94	110	159	124
Percent of capacity utilized	53.2%	57.9%	47.4%	51.8%	50.7%	48.8%	63.3%	57.0%	44.0%	56.3%

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

OVERALL COMPLIANCE AND INTERNAL CONTROL
SECTION

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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
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 (the “District”) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated April 5, 2019.

Internal Control Over Financial Reporting

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

George Morgan Freed, P.C.

Weatherford, Texas
April 5, 2019