

Independent Auditor's Report – Continued

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The schedules identified as Texas Supplementary Information are presented for the purpose of additional analysis, and are not a required part of the basic financial statements.

The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

May 5, 2015
Greenville, Texas

Rutheford, Taylor & Company, P.C.

**RUTHERFORD,
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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**

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, which are the proprietary funds of the Lavon Special Utility District (District), as of and for the twelve months ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 5, 2015.

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 opinion 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 District'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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Report on Internal Control – Continued

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 5, 2015
Greenville, Texas

Rutheford, Taylor + Company, P.C.

LAVON SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

Financial Statements Findings (Section I)

NONE

LAVON SPECIAL UTILITY DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

Prior Year Findings (Section II)

NONE

LAVON SPECIAL UTILITY DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2014

Corrective Action Plans (Section III)

NONE

**LAVON SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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

FINANCIAL HIGHLIGHTS

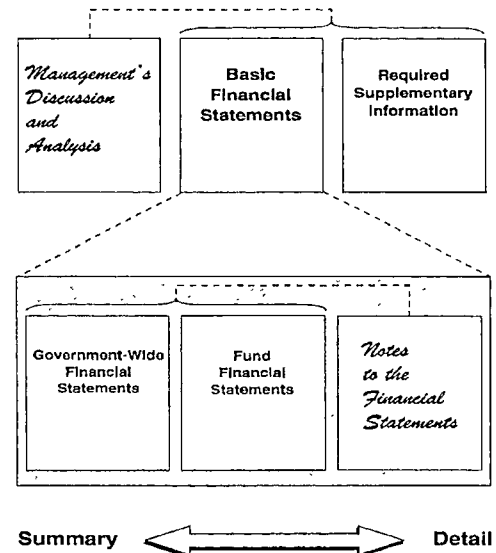
- The District's total net position was \$ 6,299,120 at year end.
- During the year, The District's expenses were \$ 861,374 less than the \$ 2,219,895 generated from charges for services and other revenues for business-type activities.
- The District entered into no new debt agreements during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements and required supplementary information. Management's Discussion and Analysis provides an overview of the financial activities of the District. The basic financial statements include three statements that present a financial view of the District: The Statement of Fund Net Position presents financial information, including assets and liabilities, representing a one day snapshot; the Statement of Revenues, Expenses and Changes in Fund Net Position presents a review of operating and non-operating activities for the fiscal period; the Statement of Cash Flows reflects the inflows and outflows of cash resources.

- Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as water sales.

The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net position was \$ 6,299,120 at year end.

	2014	2013	Total Percentage Change 2013 - 2014
Assets:			
Cash and Cash Equivalents	\$ 1,663,777	\$ 933,816	78.17%
Other Assets	142,922	127,746	11.88%
Non-Current Assets	6,176,054	6,093,408	1.36%
Restricted Assets	846,857	843,871	0.35%
Total Assets	\$ 8,829,610	\$ 7,998,841	10.39%
Liabilities:			
Current Liabilities	\$ 82,649	\$ 121,422	-31.93%
Long-term Liabilities	2,447,841	2,439,673	0.33%
Total Liabilities	\$ 2,530,490	\$ 2,561,095	-1.19%
Net Position:			
Net Investment in Capital Assets	4,098,744	5,437,746	-24.62%
Restricted	688,683	5,437,746	-87.34%
Unrestricted	1,511,693	5,437,746	-72.20%
Total Net Position	\$ 6,299,120	\$ 5,437,746	15.84%

**LAVON SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

**Table A-2
Changes in Lavon Special Utility District's Net Position**

	2014	2013*	Total Percentage Change 2013* - 2014
Program Revenues:			
Charges for Services	\$ 2,219,895	\$ 889,036	149.70%
Total Revenues	\$ 2,219,895	\$ 889,036	149.70%
Expenses:			
Water Utilities	\$ 1,264,897	\$ 609,069	107.68%
Total Expenses	\$ 1,264,897	\$ 609,069	107.68%
Non-Operating Revenues (Expenses):			
Interest Income	2,986	6,065	-50.77%
Interest Expense	(96,610)	(49,123)	96.67%
Net Non-Operating Revenues	\$ (93,624)	\$ (43,058)	117.44%
Change in Net Position	\$ 861,374	\$ 236,909	263.59%
Net Position (Beginning) - January 1	5,437,746	5,200,837	4.56%
Net Position (Ending) - December 31	\$ 6,299,120	\$ 5,437,746	15.84%

* 2013 results reflect a 6 month accounting period.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year end, the District had invested \$ 6,343,006 in a broad range of capital assets, including land, water distribution system, buildings, equipment and vehicles (see Table A-3).

**Table A-3
Lavon Special Utility District's Capital Assets**

	2014	2013	Total Percentage Change 2013 - 2014
Land and Improvements	\$ 245,368	\$ 245,368	0.00%
Construction in Progress	1,058,276	996,928	6.15%
Water Distribution System	4,485,735	4,454,591	0.70%
Vehicles and Equipment	132,912	48,904	171.78%
Buildings	420,715	412,735	1.93%
Totals at Historical Cost	\$ 6,343,006	\$ 6,158,526	3.00%
Total Accumulated Depreciation	(187,888)	(92,035)	104.15%
Net Capital Assets	\$ 6,155,118	\$ 6,066,491	1.46%

**LAVON SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

Long Term Debt

At year end, the District had \$ 2,056,374 in debt outstanding as shown in Table A-4. More detailed information about the District's debt is presented in the notes to the basic financial statements.

<p style="text-align: center;">Table A-4 Lavon Special Utility District's Long Term Debt</p>			
	2014	2013	Total Percentage Change 2013 - 2014
Loans Payable	\$ 2,056,374	\$ 2,103,004	-2.22%
Total Debt Payable	\$ 2,056,374	\$ 2,103,004	-2.22%

BUDGET, ECONOMIC ENVIRONMENT AND RATES

At this time Lavon Special Utility District is not aware of any decisions or conditions that would impact the District's operations through 2015.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Camille Reagan, General Manager for the District.

BASIC FINANCIAL STATEMENTS

LAVON SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2014

	Enterprise Fund Water Utilities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,663,777
Accounts Receivable	87,711
Prepaid Expenses - Supplies, Materials and Other	55,211
Total Current Assets	<u>\$ 1,806,699</u>
Restricted Assets:	
Cash - Loan Covenants	\$ 252,834
Cash - Board Restricted	594,023
Total Restricted Assets	<u>\$ 846,857</u>
Non-Current Assets:	
SUD Conversion Costs, Net	\$ 20,937
Capital Assets:	
Land	245,368
Construction in Progress	1,058,276
Water Distribution System	4,538,598
Buildings	420,714
Vehicles and Equipment	80,047
Accumulated Depreciation	(187,886)
Total Non-Current Assets	<u>\$ 6,176,054</u>
Total Assets	<u>\$ 8,829,610</u>

The accompanying notes are an integral part of this statement.

LAVON SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2014

	Enterprise Fund Water Utilities
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 6,522
Payroll Liabilities Payable	8,788
TCEQ Assessment Payable	3,551
Accrued Benefits Payable	10,306
Accrued Interest Payable	4,550
Loans Payable, Current Portion	48,932
Total Current Liabilities	<u>\$ 82,649</u>
Noncurrent Liabilities:	
Customer Deposits	\$ 440,400
Loans Payable, less Current Portion	2,007,441
Total Noncurrent Liabilities	<u>\$ 2,447,841</u>
Total Liabilities	<u>\$ 2,530,490</u>
NET POSITION	
Net Investment in Capital Assets	\$ 4,098,744
Restricted	688,683
Unrestricted	1,511,693
Total Net Position	<u>\$ 6,299,120</u>

LAVON SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	Enterprise Fund Water Utilities
OPERATING REVENUES	
Water Sales	\$ 709,683
Customer Charges/Fees	1,344,762
Other Income	165,450
Total Operating Revenues	<u>\$ 2,219,895</u>
OPERATING EXPENSES	
Payroll and Benefits	\$ 282,718
Water Purchases	423,323
Repairs and Maintenance	19,411
Utilities	50,671
Supplies	132,870
Insurance	85,617
Dues and Fees	7,693
Depreciation and Amortization	101,834
Professional Fees	51,274
Other Operating Expenses	109,486
Total Operating Expenses	<u>\$ 1,264,897</u>
Net Operating Revenue (Expenses)	<u>\$ 954,998</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	\$ 2,986
Interest Expense	(96,610)
Net Non-Operating Revenue (Expenses)	<u>\$ (93,624)</u>
Change in Net Position	<u>\$ 861,374</u>
Total Net Position - Beginning (January 1)	<u>5,437,746</u>
Total Net Position - Ending (December 31)	<u><u>\$ 6,299,120</u></u>

The accompanying notes are an integral part of this statement.

**LAVON SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	Enterprise Fund Water Utilities
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 2,211,352
Cash Payments for Goods and Services	(922,613)
Cash Payments to Employees	(288,058)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 1,000,681</u>
Cash Flows from Investing Activities:	
Purchase of Property, Plant and Equipment	\$ (184,480)
Interest Received	2,986
Increase (Decrease) in Restricted Assets	(2,986)
Net Cash Provided by (Used for) Investing Activities	<u>\$ (184,480)</u>
Cash Flows from Financing Activities:	
Payments of Principal on Long-term Financing	\$ (46,630)
Payments of Interest on Long-term Financing	(96,709)
Increase (Decrease) in Customer Deposits	57,100
Net Cash Provided by (Used for) Financing Activities	<u>\$ (86,239)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 729,962
Cash and Cash Equivalents - Beginning (January 1)	<u>933,815</u>
Cash and Cash Equivalents - Ending (December 31)	<u><u>\$ 1,663,777</u></u>
Reconciliation of Change in Equity to Net Cash Provided by Operating Activities	
Operating Income Over (Under) Operating Expense	\$ 954,998
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	101,834
(Increase) Decrease in Prepaid Expenses - Supplies, Materials and Other	(6,633)
(Increase) Decrease in Accounts Receivable	(8,543)
Increase (Decrease) in Accounts Payable	(49,360)
Increase (Decrease) in Payroll Liabilities Payable	5,340
Increase (Decrease) in Accrued Benefits Payable	3,602
Increase (Decrease) in TCEQ Assessment Payable	(557)
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 1,000,681</u></u>

The accompanying notes are an integral part of this statement.

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

A. Summary of Significant Accounting Policies

The Lavon Special Utility District (District) was approved by the voters within the District on May 14, 2011. The Lavon Special Utility District is an organization as set forth under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapter 65 of the Texas Water Code.

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

1. Reporting Entity

The Board of Directors (Board), a seven member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to providing water services within the jurisdiction of the Lavon Special Utility District. Members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District is not included in any other governmental "Reporting Entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units presented.

2. Basis of Presentation

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenue and expenses. The fund type utilized by the District is described below:

a. Proprietary fund types include the following –

The *Enterprise Fund* is used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989 and continue to follow new FASB pronouncements unless they conflict with GASB guidance.

3. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the balance sheet. Fund equity is identified as net position.

4. Budget

The Board adopts an annual budget for the Enterprise Fund. The Budget for the Enterprise Fund is adopted under a basis consistent with GAAP. The Board approves amendments to the annual budget as prepared by the General Manager of the District.

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

A. Summary of Significant Accounting Policies (Continued)

5. Property, Plant and Equipment

Additions to the utility system are recorded at cost or, if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recovered by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	30 years
Office Equipment	5-10 years
Equipment	7-10 years
Water Distribution System	40 years
Vehicles	5-7 years

6. Amortization of Equity Fee and Organizational Costs

The District has assets recorded in the basic financial statements entitled "SUD Conversion Costs, Net." Generally accepted accounting principles require that the District capitalize the costs associated with these assets and amortize those costs over a period not less than 60 months, rather than expensing the entire amount in the year incurred. The expense associated with this amortization appears in the basic financial statements as "Amortization." The amount expensed during the year, was \$ 8,973. The amount recorded as an asset (net of amortization) in the basic financial statements at year end, totaled \$ 20,937.

7. Prepaid Expenses, Supplies and Materials

Prepaid expenses consist of items paid for in the current period to be used in the following accounting period. Prepaid supplies and materials consist of supplies and repair parts for the distribution system, valued at cost. The cost of supplies and materials is recorded as an expense when consumed rather than when purchased.

8. Cash and Cash Equivalents

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

9. Retirement Plan

The District participates in a Simple IRA plan to provide retirement benefits for its employees. Employees may contribute up to the maximum annual amount as set periodically by the Internal Revenue Service. The District matches employee contributions dollar for dollar up to a maximum of 3% of the employee's compensation or the limit set by the Internal Revenue Service, whichever is less. All matching contributions vest immediately. The District's matching contributions to the Simple IRA plan during the fiscal year totaled approximately \$ 4,091.

10. Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave does not vest, but accumulates and is recorded as an expense as it is paid.

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

B. Deposits, Securities and Investments

The District's funds appear to be deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At December 31, 2014, it appears that District cash deposits were properly covered by FDIC insurance or by pledged collateral.

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to be in compliance with the requirements of the Act.

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or securitized certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include deposits in money market accounts and certificates of deposit. All money market accounts and certificates of deposit are reported at share price (fair value) and are presented as cash and cash equivalents.

The following table categorizes the District's investment at year end:

	Credit Rating	Fair Value
Certificate of Deposit	n/a	\$ 491,000
Money Market Accounts	n/a	103,023
Total		<u>\$ 594,023</u>

In addition, the following is disclosed regarding coverage of combined cash balances on the date of highest balance:

- a. Name of bank: Independent Bank, McKinney, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 1,597,621.
- c. Largest cash, savings and time deposit combined account balances amounted to \$ 1,760,311 and occurred during the month of October 2014.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$ 500,000.

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

B. Deposits, Securities and Investments (Continued)

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

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

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

C. Capital Assets

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

	Beginning Balances	Additions and Reclassifications	Retirements	Ending Balances
Land and Improvements	\$ 245,368	\$ -	\$ -	\$ 245,368
Construction in Progress	996,928	61,348	-	1,058,276
Buildings	412,735	7,980	-	420,715
Water Distribution System	4,454,591	31,144	-	4,485,735
Vehicles	48,904	84,008	-	132,912
Totals at Historical Cost	\$ 6,158,526	\$ 184,480	\$ -	\$ 6,343,006
Less Accumulated Depreciation for:				
Buildings	\$ 5,935	\$ 6,068	\$ -	\$ 12,003
Water Distribution System	80,092	8,938	-	89,030
Vehicles	6,008	80,847	-	86,855
Total Accumulated Depreciation	\$ 92,035	\$ 95,853	\$ -	\$ 187,888
Net Capital Assets	\$ 6,066,491	\$ 88,627	\$ -	\$ 6,155,118

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

D. Long - Term Obligations

The following schedule presents changes in long-term obligations for the fiscal year:

	Balance Beginning	Additions	Retirements	Balance Ending	Current Portion of Debt
Loans Payable	\$ 2,103,004	\$ -	\$ 46,630	\$ 2,056,374	\$ 48,932
Total Debt Payable	\$ 2,103,004	\$ -	\$ 46,630	\$ 2,056,374	\$ 48,932

Loans Payable

Lavon SUD assumed the debt of Lavon WSC which consisted of debt through the United States Department of Agriculture. The following presents information on the outstanding loans:

Payee	Interest Rate	Original Issue	Current Outstanding
USDA - Loan 2	5.625%	\$ 742,777	\$ 710,682
USDA - Loan 3	4.125%	1,382,579	1,345,691
Total			\$ 2,056,373

Maturities of loan balances at year end are as follows:

Year Ending December 31	Principal	Interest	Total Requirements
2015	\$ 48,932	\$ 94,408	\$ 143,340
2016	51,086	92,254	143,340
2017	53,877	89,463	143,340
2018	56,545	86,795	143,340
2019	59,348	83,992	143,340
2020 - 2024	343,577	373,123	716,700
2025 - 2029	438,699	278,001	716,700
2030 - 2034	446,719	161,345	608,064
2035 - 2039	321,205	83,615	404,820
2040 - 2044	236,386	15,951	252,337
Totals	\$ 2,056,374	\$ 1,358,947	\$ 3,415,321

E. Customer Deposits

The District requires each new customer to pay \$ 200, which is held as a refundable deposit to secure payment of the customer's water bill. At year end, the District's obligation totaled \$ 440,400

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

F. Litigation

As of December 31, 2014, the District was involved in a pending litigation with an internet company concerning a lease for space on water towers. If the District fails to prove its position including appeals a contingent liability of approximately \$ 50,000 could exist.

G. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year end, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Subsequent Events

District Management has evaluated subsequent events through May 5, 2015, which is the date the financial statements were available to be issued. There do not appear to be any events occurring after year end that could have a material effect on the financial statements at year end as presented.

TEXAS SUPPLEMENTARY INFORMATION (TSI)
(Other Supplementary Information)

**LAVON SPECIAL UTILITY DISTRICT
SUPPLEMENTARY SCHEDULES INCLUDED WITHIN THIS REPORT
YEAR ENDED DECEMBER 31, 2014**

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TSI-8	Board Members, Key Personnel and Consultants	35

The following schedules are not applicable to this District.

- I. Analysis of Taxes Levied and Receivable

**RUTHERFORD,
TAYLOR &
COMPANY, P.C.**
Certified Public Accountants

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

Members of the Board:

In our opinion, the accompanying information is stated accurately in all material respects in relation to the basic financial statements, taken as a whole, of the Lavon Special Utility District for the twelve months ended December 31, 2014, which are covered by our opinion presented in the first section of this report.

The accompanying information is supplementary to the basic financial statements and is not essential for a fair presentation of financial position, results of operations or cash flows.

Our audit, which was made for the purpose of forming an opinion on the basic financial statements taken as a whole, included such tests of the accounting records, from which the supplementary information was compiled, and such other auditing procedures as we considered necessary in the circumstances.

May 5, 2015
Greenville, Texas

Rutherford, Taylor & Company, P.C.

**LAVON SPECIAL UTILITY DISTRICT
ENTERPRISE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
OPERATING REVENUES				
Water Sales	\$ 850,000	\$ 850,000	\$ 709,683	\$ (140,317)
Charges for Services	757,500	757,500	1,344,762	587,262
Other Income	52,800	52,800	165,450	112,650
Total Operating Revenues	\$ 1,660,300	\$ 1,660,300	\$ 2,219,895	\$ 559,595
OPERATING EXPENSES				
Payroll and Benefits	\$ 301,832	\$ 301,832	\$ 282,718	\$ 19,114
Water Purchases	440,000	440,000	423,323	16,677
Repairs and Maintenance	25,800	25,800	19,411	6,389
Utilities	58,650	58,650	50,671	7,979
Supplies	80,500	80,500	132,870	(52,370)
Insurance	176,500	176,500	85,617	90,883
Dues and Fees	13,500	13,500	7,693	5,807
Professional and Legal Fees	78,500	78,500	51,274	27,226
Depreciation and Amortization	-	-	101,834	(101,834)
Other Operating Costs	770,865	770,865	109,486	661,379
Total Operating Expenses	\$ 1,946,147	\$ 1,946,147	\$ 1,264,897	\$ 681,250
NON-OPERATING REVENUES (EXPENSES)				
Interest Income	\$ -	\$ -	\$ 2,986	\$ 2,986
Interest Expense	(6,000)	(6,000)	(96,610)	(90,610)
Net Non-Operating Revenues (Expenses)	\$ (6,000)	\$ (6,000)	\$ (93,624)	\$ (87,624)
Change in Net Position	\$ (291,847)	\$ (291,847)	\$ 861,374	\$ 1,153,221
Net Position - Beginning (January 1)	5,437,746	5,437,746	5,437,746	-
Net Position - Ending (December 31)	\$ 5,145,899	\$ 5,145,899	\$ 6,299,120	\$ 1,153,221

**LAVON SPECIAL UTILITY DISTRICT
SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2014**

1. Services provided by the District:

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

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 25.00	-0-	N	\$ 4.00	-0- to 5,000
				\$ 4.25	5,001 to 10,000
				\$ 5.00	10,001 to 15,000
				\$ 6.25	15,001 to 25,000
				\$ 7.00	25,001 to unlimited

District employs winter averaging for wastewater usage? Yes XNo

Total charges per 10,000 gallons usage: Water \$ 66.46

b. Water Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	0	0	x 1.0	0
≤ 3/4"	2095	1973	x 1.0	1785
1"	0	18	x 2.5	0
1 1/2"	0	0	x 5.0	0
2"	2	19	x 8.0	16
3"	0	1	x 15.0	0
4"	0	0	x 25.0	0
Total Water	0	0		0
Total Wastewater	0	0	x 1.0	0

3. Total water consumption (rounded to the nearest 1,000) during the fiscal year:

Gallons pumped into system: 171,664,300
Gallons billed to customers: 149,648,400
Water Accountability Percent: 87.18%

**LAVON SPECIAL UTILITY DISTRICT
SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2014**

4. Standby Fees: District does not levy standby fees.

5. Location of District:
County(ies) in which district is located Collin / Rockwall
Is the District located entirely in one county? Yes _____ No X
Is the District located within a city? Entirely _____ Partly X Not at all _____
City(ies) in which District is located. Lavon
Is the District located within a city's extra territorial jurisdiction (ETJ)?
Entirely _____ Partly X Not at all _____
ETJ's in which District is located Lavon, Rockwall, Fate
Is the general membership of the Board appointed by an office outside the District?
Yes _____ No X
If Yes, by whom? N/A

**LAVON SPECIAL UTILITY DISTRICT
ENTERPRISE FUND EXPENDITURES
YEAR ENDED DECEMBER 31, 2014**

Payroll and Benefits	\$	282,718
Water Purchases		423,323
Repairs and Maintenance		19,411
Utilities		50,671
Supplies		132,870
Insurance		85,617
Dues and Fees		7,693
Professional and Legal Fees		51,274
Depreciation and Amortization		101,834
Other Operating Costs		109,486
Interest Expense		<u>96,610</u>
Total Expenses	\$	<u><u>1,361,507</u></u>

Number of persons employed by the District:

Full Time	<u>5</u>
Part Time	<u>0</u>

**LAVON SPECIAL UTILITY DISTRICT
TEMPORARY INVESTMENTS
YEAR ENDED DECEMBER 31, 2014**

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at Year End
Money Market		0.010%		\$ 103,023	*
Discover Bank CD	1042016	4.650%	01/04/16	94,831	*
DMB Community Bank CD	12292015	4.100%	12/29/15	101,659	*
Discover Bank CD	10162015	0.300%	10/16/2015	994,685	*
Goldman Sachs Bank USA CD	4182016	0.500%	4/18/2016	99,549	*
Ally Bank CD	4172017	1.000%	4/17/2017	99,212	*
Total				<u>\$ 1,492,959</u>	<u>\$ -</u>

* Interest is paid on a monthly basis.

**LAVON SPECIAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2000 - BY YEARS
YEAR ENDED DECEMBER 31, 2014**

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 48,932	\$ 94,408	\$ 143,340
2016	51,086	92,254	143,340
2017	53,877	89,463	143,340
2018	56,545	86,795	143,340
2019	59,348	83,992	143,340
2020 - 2024	343,577	373,123	716,700
2025 - 2029	438,699	278,001	716,700
2030 - 2034	446,719	161,345	608,064
2035 - 2039	321,205	83,615	404,820
2040 - 2044	236,386	15,951	252,337
			-
Total	<u>\$ 2,056,374</u>	<u>\$ 1,358,947</u>	<u>\$ 3,415,321</u>

**LAVON SPECIAL UTILITY DISTRICT
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
ALL PROPRIETARY FUND TYPES
FIVE YEARS ENDED DECEMBER 31, 2014**

	AMOUNTS					PERCENT OF FUND TOTAL REVENUE				
	2014	2013*	2012	2011	2010	2014	2013*	2012	2011	2010
OPERATING REVENUE										
Water Sales	\$ 709,683	\$ 523,309	\$ -	\$ -	\$ -	31.97%	58.86%	0.00%	0.00%	0.00%
Customer Charges/Fees	1,344,762	277,134	-	-	-	60.58%	31.17%	0.00%	0.00%	0.00%
Other Income	165,450	88,593	-	-	-	7.45%	9.97%	0.00%	0.00%	0.00%
TOTAL OPERATING REVENUE	\$ 2,219,895	\$ 889,036	\$ -	\$ -	\$ -	100.00%	100.00%	0.00%	0.00%	0.00%
OPERATING EXPENSES										
Payroll and Benefits	\$ 282,718	\$ 110,160	\$ -	\$ -	\$ -	12.74%	12.39%	0.00%	0.00%	0.00%
Water Purchases	423,323	198,326	-	-	-	19.07%	22.31%	0.00%	0.00%	0.00%
Repairs and Maintenance	19,411	28,996	-	-	-	0.87%	3.26%	0.00%	0.00%	0.00%
Utilities	50,671	24,519	-	-	-	2.28%	2.76%	0.00%	0.00%	0.00%
Supplies	132,870	28,847	-	-	-	5.99%	3.24%	0.00%	0.00%	0.00%
Insurance	85,617	36,472	-	-	-	3.86%	4.10%	0.00%	0.00%	0.00%
Dues and Fees	7,693	3,494	-	-	-	0.35%	0.39%	0.00%	0.00%	0.00%
Professional and Legal Fees	51,274	24,195	-	-	-	2.31%	2.72%	0.00%	0.00%	0.00%
Depreciation and Amortization	101,834	92,035	-	-	-	4.59%	10.35%	0.00%	0.00%	0.00%
Other Operating Costs	109,486	62,025	-	-	-	4.93%	6.98%	0.00%	0.00%	0.00%
TOTAL OPERATING EXPENSES	\$ 1,264,897	\$ 609,069	\$ -	\$ -	\$ -	56.98%	68.51%	0.00%	0.00%	0.00%
NET OPERATING REVENUE (EXPENSES)	\$ 954,998	\$ 279,967	\$ -	\$ -	\$ -	43.02%	31.49%	0.00%	0.00%	0.00%
NON-OPERATING REVENUE (EXPENSES)										
Interest Income	\$ 2,986	\$ 6,065	\$ -	\$ -	\$ -	0.13%	0.68%	0.00%	0.00%	0.00%
Interest Expense	(96,610)	(49,123)	-	-	-	4.35%	5.53%	0.00%	0.00%	0.00%
NET NON-OPERATING REVENUE (EXPENSES)	\$ (93,624)	\$ (43,058)	\$ -	\$ -	\$ -	4.49%	6.21%	0.00%	0.00%	0.00%
NET REVENUE (EXPENSES)	\$ 861,374	\$ 236,909	\$ -	\$ -	\$ -	47.51%	37.70%	0.00%	0.00%	0.00%

*For the six (6) months ended December 31, 2013, initial operating period.

**LAVON SPECIAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
YEAR ENDED DECEMBER 31, 2014**

Complete District Mailing Address: P.O. Box 188, Lavon, TX 75166

District Business Telephone Number: 972-843-2101

Submission Date of the most recent District Registration Form:

Limit on Fees of Office that a Director may receive during a fiscal year: \$ 588

<u>Names:</u>	<u>Term of Office (Elected or Appointed or Date Hired)</u>	<u>Fees of Office Paid FYE Date</u>	<u>Expense Reimbursements FYE Date</u>	<u>Title at Year End</u>
Board Members:				
Herman Stork	3 Yrs	\$ 588	\$ 346	President
John H. Horton	3 Yrs	\$ 539	-	Vice-Pres
Cheryl Crowder	3 Yrs	\$ 588	-	Secretary
Aubrey Mayfield	3 Yrs	\$ 539	-	Treasurer
Bryan Block	3 Yrs	\$ 588	-	Director
David Adcock	3 Yrs	\$ 588	-	Director
Jeffrey Bialecki	3 Yrs	\$ 588	-	Director
Consultants:				
Coats Rose		\$ 18,426	-	Attorney
Porter Hedges LLP		\$ 6,616	-	Attorney
Rutherford, Taylor & Company, P.C		\$ 12,500	-	Auditor
Kimley Horn		\$ 13,590	-	Engineer
Helmberger Assoc		\$ 13,854	-	Engineer

RUTHERFORD, TAYLOR & COMPANY, P.C.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

JAMES A. RUTHERFORD
(1917-2003)

MICHAEL E. TAYLOR
CERTIFIED PUBLIC ACCOUNTANT

ROBERT K. LAKE
CERTIFIED PUBLIC ACCOUNTANT

GLENETTE COX
CERTIFIED PUBLIC ACCOUNTANT

2802 WASHINGTON STREET
GREENVILLE, TEXAS 75401-4115
903-455-6252
FAX 903-455-6667

1300 W. AUDIE MURPHY SUITE 5
FARMERSVILLE, TEXAS 75442
972-782-7572

To the Board of Directors
Lavon Special Utility District

We have audited the financial statements of Lavon Special Utility District (District) for the six months ended December 31, 2014, and have issued our report thereon dated May 5, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lavon Special Utility District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2014 year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimate(s) affecting the financial statement presentation.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 5, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors as well as throughout our audit visit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Lavon Special Utility District and is not intended to be and should not be used by anyone other than these specified parties.

May 5, 2015
Greenville, Texas

Kutnerford, Taylor & Company, P.C.

RUTHERFORD, TAYLOR & COMPANY, P.C.

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Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lavon Special Utility District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2014 year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimate(s) affecting the financial statement presentation.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors as well as throughout our audit visit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Lavon Special Utility District and is not intended to be and should not be used by anyone other than these specified parties.

May 5, 2015
Greenville, Texas

Rutherford, Taylor & Company, P.C.

**LAVON SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2015**

RUTHERFORD, TAYLOR & COMPANY, P.C.
Certified Public Accountants
2802 Washington Street
Greenville, Texas 75401
(903) 455-6252

**LAVON SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2015**

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LAVON SPECIAL UTILITY DISTRICT
ANNUAL FILING AFFIDAVIT

STATE OF TEXAS

COUNTY OF Collin

I, HERMAN STORK of the
(Name of Duly Authorized District Representative)

Lavon Special Utility District
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the 10th day of MAY, 2016,
its annual audit report for the fiscal period ended December 31, 2015
and that copies of the annual report have been filed in the District's office, located at _____
P.O. Box 188 Lavon, TX 75166
(Address of the District's Office)

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

Date: 5-10-16 By: Herman Stork
(Signature of District Representative)

HERMAN STORK, PRES. BOD
(Typed Name and Title of District Representative)

Sworn to and subscribed before me this 10th day of MAY, 2016



Camille Reagan
(Signature of Notary)

My Commission Expires On: August 11, 2016
Notary Public of the State of Texas.

FINANCIAL SECTION

**RUTHERFORD,
TAYLOR &
COMPANY, P.C.**
Certified Public Accountants

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

INDEPENDENT AUDITOR'S REPORT

Members of the Board:

We have audited the accompanying financial statements of the business type activities, which are the proprietary funds of the Lavon Special Utility District (District), as of and for the twelve months ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, which are the proprietary funds of the Lavon Special Utility District as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the twelve months then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note H to the financial statements, the District adopted various accounting pronouncements issued by the Governmental Accounting Standards Board during the year. Our opinion is not modified with respect to this matter.

Independent Auditor's Report – Continued

Other Matters

Required Supplementary Information

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

Other Information

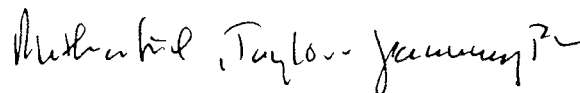
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The schedules identified as Texas Supplementary Information are presented for the purpose of additional analysis, and are not a required part of the basic financial statements.

The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

May 5, 2016
Greenville, Texas

A handwritten signature in black ink, appearing to read "Michael Taylor - January 2016".

**RUTHERFORD,
TAYLOR &
COMPANY, P.C.**
Certified Public Accountants

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

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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**

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, which are the proprietary funds of the Lavon Special Utility District (District), as of and for the twelve months ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 5, 2016.

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 opinion 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 District'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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Report on Internal Control – Continued

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 5, 2016
Greenville, Texas

Arthur Taylor, Jr.

**LAVON SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015**

Financial Statements Findings (Section I)

15-01

Depository Security

Criteria: Districts are required to deposit funds into multiple financial institutions under a depository contract unless funds placed will not exceed the available Federal Deposit Insurance Corporation coverage.

Condition Found: The District placed funds outside of their depository agreement with financial institutions seeking to increase investment earnings. The District did this by placing amounts of \$ 250,000 with these institutions. The District however did not structure the agreements to have any investment earnings returned to the District but to roll over the earnings into the agreement. This increased the value of the certificates above the FDIC limits. As such the funds in excess of the FDIC coverage are at risk requiring a depository agreement and appropriate security.

Questioned Costs/Basis: None

Instances/Universe: The District's certificates of deposit at year end included investment earnings of \$ 3,203 which exceeded the FDIC coverage.

Effect: District funds are at risk of loss during periods of inadequate security.

Recommendation: The District should restrict the amounts invested to allow for investment earnings to be rolled into the original balance or have any investment earnings returned to the District as it is earned.

15-02

Expenditures Over Appropriations

Criteria: Texas Water Code, Section 49.057 establishes the legal basis for budget development in special utility districts. No funds may be expended in any manner other than as provided in the adopted budget.

Condition Found: The District over-expended functional expenditure categories during the year and at the year end.

Questioned Costs/Basis: None

Instances/Universe: Expenditures of the legally required budgeted funds are distributed into ten (10) functional expenditure categories. The District over-expended two (2) of the functional categories.

Effect: The District does not appear to have been in compliance with Texas Water Code, Section 49.057.

Recommendation: The District should conduct monthly reviews of budgetary authority with appropriate budget amendments approved by the Board prior to encumbrance and expenditures of funds.

LAVON SPECIAL UTILITY DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

Prior Year Findings (Section II)

NONE

**LAVON SPECIAL UTILITY DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2015**

Corrective Action Plans (Section III)

15-01

Depository Security

The District will restrict any future certificate of deposit agreements to \$ 240,000 with any one financial institution. By restricting the level of investment, any investment earnings will not exceed the available FDIC coverage. Upon maturity the investments identified will be reduced to the appropriate level which allows for earnings to be added to the certificates.

15-02

Expenditures Over Appropriations

The District over-expended two functional categories at year end. In the future, the District will take measures to monitor transactions to ensure timely amendments are taken to the Board for approval, as necessary, and to ensure that all funds expended are provided for in the amended budget.

Contact Person: Camille Reagan

**LAVON SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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

FINANCIAL HIGHLIGHTS

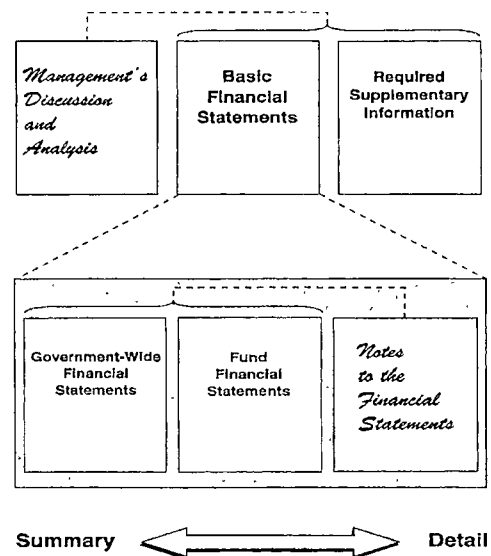
- The District's total net position was \$ 6,497,078 at year end.
- During the year, the District's expenses were \$ 197,959 less than the \$ 1,972,665 generated from charges for services and other revenues for business-type activities.
- The District entered into a new debt agreements during the year to take advantage of interest savings by refinancing existing debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Managements Discussion and Analysis (this section), the basic financial statements and required supplementary information. Management's Discussion and Analysis provides an overview of the financial activities of the District. The basic financial statements include three statements that present a financial view of the District: The Statement of Fund Net Position presents financial information, including assets and liabilities, representing a one day snapshot; the Statement of Revenues, Expenses and Changes in Fund Net Position presents a review of operating and non-operating activities for the fiscal period; the Statement of Cash Flows reflects the inflows and outflows of cash resources.

- Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as water sales.

The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net position was \$ 6,497,078 at year end.

	2015	2014	Total Percentage Change 2014 - 2015
Assets:			
Cash and Cash Equivalents	\$ 1,679,340	\$ 1,663,777	0.94%
Other Assets	164,207	142,922	14.89%
Non-Current Assets	6,304,981	6,176,054	2.09%
Restricted Assets	857,369	846,857	1.24%
Total Assets	\$ 9,005,897	\$ 8,829,610	2.00%
Liabilities:			
Current Liabilities	\$ 119,913	\$ 82,649	45.09%
Long-term Liabilities	2,388,906	2,447,841	-2.41%
Total Liabilities	\$ 2,508,819	\$ 2,530,490	-0.86%
Net Position			
Net Investment in Capital Assets	4,277,623	4,098,744	4.36%
Restricted	698,379	688,683	1.41%
Unrestricted	1,521,076	1,511,693	0.62%
Total Net Position	\$ 6,497,078	\$ 6,299,120	3.14%

**LAVON SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

**Table A-2
Changes in Lavon Special Utility District's Net Position**

	2015	2014	Total Percentage Change 2014 - 2015
Program Revenues:			
Charges for Services	\$ 1,972,665	\$ 2,219,895	-11.14%
Total Revenues	\$ 1,972,665	\$ 2,219,895	-11.14%
Expenses:			
Water Utilities	\$ 1,683,537	\$ 1,264,897	33.10%
Total Expenses	\$ 1,683,537	\$ 1,264,897	33.10%
Non-Operating Revenues (Expenses):			
Interest Income	10,512	2,986	252.04%
Interest Expense	(103,605)	(96,610)	7.24%
Gain (Loss) on Sale of Fixed Assets	1,924	-	100.00%
Net Non-Operating Revenues	\$ (91,169)	\$ (93,624)	-2.62%
Change in Net Position	\$ 197,959	\$ 861,374	-77.02%
Net Position (Beginning) - January 1	6,299,119	5,437,745	15.84%
Net Position (Ending) - December 31	\$ 6,497,078	\$ 6,299,119	3.14%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year end, the District had invested \$ 6,694,344 in a broad range of capital assets, including land, water distribution system, buildings, equipment and vehicles (see Table A-3).

**Table A-3
Lavon Special Utility District's Capital Assets**

	2015	2014	Total Percentage Change 2014 - 2015
Land and Improvements	\$ 245,368	\$ 245,368	0.00%
Construction in Progress	354,325	1,058,276	-66.52%
Water Distribution System	5,345,109	4,538,599	17.77%
Vehicles and Equipment	307,194	80,048	283.76%
Buildings	442,345	420,715	5.14%
Totals at Historical Cost	\$ 6,694,341	\$ 6,343,006	5.54%
Total Accumulated Depreciation	(404,315)	(187,887)	115.19%
Net Capital Assets	\$ 6,290,026	\$ 6,155,119	2.19%

**LAVON SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

Long Term Debt

At year end, the District had \$ 2,012,403 in debt outstanding as shown in Table A-4. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Table A-4 Lavon Special Utility District's Long Term Debt			
	2015	2014	Total Percentage Change 2014 - 2015
Loans Payable	\$ 2,012,404	\$ 2,056,374	-2.14%
Total Debt Payable	\$ 2,012,404	\$ 2,056,374	-2.14%

BUDGET, ECONOMIC ENVIRONMENT AND RATES

At this time Lavon Special Utility District is not aware of any decisions or conditions that would impact the District's operations through 2016.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Camille Reagan, General Manager for the District.

BASIC FINANCIAL STATEMENTS

LAVON SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2015

	Enterprise Fund Water Utilities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,679,340
Accounts Receivable	86,421
Prepaid Expenses - Supplies, Materials and Other	77,786
Total Current Assets	<u>\$ 1,843,547</u>
Restricted Assets:	
Cash - Loan Covenants	\$ 253,203
Cash - Board Restricted	604,166
Total Restricted Assets	<u>\$ 857,369</u>
Non-Current Assets:	
SUD Conversion Costs, Net	\$ 14,955
Capital Assets:	
Land	245,368
Construction in Progress	354,325
Water Distribution System	5,345,109
Buildings	442,345
Vehicles and Equipment	307,194
Accumulated Depreciation	(404,315)
Total Non-Current Assets	<u>\$ 6,304,981</u>
Total Assets	<u>\$ 9,005,897</u>

The accompanying notes are an integral part of this statement.

LAVON SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2015

	Enterprise Fund Water Utilities
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 14,530
Payroll Liabilities Payable	11,838
TCEQ Assessment Payable	4,504
Accrued Benefits Payable	10,920
Accrued Interest Payable	4,724
Loans Payable, Current Portion	73,397
	<hr/>
Total Current Liabilities	\$ 119,913
	<hr/>
Noncurrent Liabilities:	
Customer Deposits	\$ 449,900
Loans Payable, less Current Portion	1,939,006
	<hr/>
Total Noncurrent Liabilities	\$ 2,388,906
	<hr/>
Total Liabilities	\$ 2,508,819
	<hr/>
NET POSITION	
Net Investment in Capital Assets	\$ 4,277,623
Restricted	698,379
Unrestricted	1,521,076
	<hr/>
Total Net Position	\$ 6,497,078
	<hr/>

The accompanying notes are an integral part of this statement.

LAVON SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

	Enterprise Fund Water Utilities
OPERATING REVENUES	
Water Sales	\$ 878,791
Customer Charges/Fees	942,174
Other Income	151,700
Total Operating Revenues	<u>\$ 1,972,665</u>
OPERATING EXPENSES	
Payroll and Benefits	\$ 327,463
Water Purchases	464,271
Repairs and Maintenance	44,137
Utilities	61,815
Supplies	100,841
Insurance	115,350
Dues and Fees	9,773
Depreciation and Amortization	227,892
Professional Fees	94,699
Other Operating Expenses	237,296
Total Operating Expenses	<u>\$ 1,683,537</u>
Net Operating Revenue (Expenses)	<u>\$ 289,128</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	\$ 10,512
Interest Expense	(103,605)
Gain (Loss) on Sale of Fixed Assets	1,924
Net Non-Operating Revenue (Expenses)	<u>\$ (91,169)</u>
Change in Net Position	<u>\$ 197,959</u>
Total Net Position - Beginning (January 1)	<u>6,299,119</u>
Total Net Position - Ending (December 31)	<u><u>\$ 6,497,078</u></u>

The accompanying notes are an integral part of this statement.

**LAVON SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015**

Enterprise
Fund

Water
Utilities

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,973,955
Cash Payments for Goods and Services	(1,141,182)
Cash Payments to Employees	(324,413)
Net Cash Provided by (Used for) Operating Activities	\$ 508,360
Cash Flows from Investing Activities:	
Purchase of Property, Plant and Equipment	\$ (358,645)
Interest Received	10,512
(Increase) Decrease in Restricted Assets	(10,512)
Sale of Capital Assets	3,750
Net Cash Provided by (Used for) Investing Activities	\$ (354,895)
Cash Flows from Financing Activities:	
Payments of Principal on Long-term Financing	\$ (2,074,438)
Payments of Interest on Long-term Financing	(103,432)
Increase (Decrease) in Customer Deposits	9,500
Loan Proceeds	2,030,468
Net Cash Provided by (Used for) Financing Activities	\$ (137,902)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 15,563
Cash and Cash Equivalents - Beginning (January 1)	1,663,777
Cash and Cash Equivalents - Ending (December 31)	\$ 1,679,340
Reconciliation of Change in Equity to Net Cash Provided by Operating Activities	
Operating Income Over (Under) Operating Expense	\$ 289,128
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	227,892
(Increase) Decrease in Prepaid Expenses - Supplies, Materials and Other	(22,575)
(Increase) Decrease in Accounts Receivable	1,290
Increase (Decrease) in Accounts Payable	8,008
Increase (Decrease) in Payroll Liabilities Payable	3,050
Increase (Decrease) in Accrued Benefits Payable	614
Increase (Decrease) in TCEQ Assessment Payable	953
Net Cash Provided by (Used for) Operating Activities	\$ 508,360

The accompanying notes are an integral part of this statement.

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

A. Summary of Significant Accounting Policies

The Lavon Special Utility District (District) was approved by the voters within the District on May 14, 2011. The Lavon Special Utility District is an organization as set forth under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapter 65 of the Texas Water Code.

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

1. Reporting Entity

The Board of Directors (Board), a seven member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to providing water services within the jurisdiction of the Lavon Special Utility District. Members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District is not included in any other governmental "Reporting Entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units presented.

2. Basis of Presentation

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenue and expenses. The fund type utilized by the District is described below:

a. Proprietary fund types include the following –

The *Enterprise Fund* is used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989 and continue to follow new FASB pronouncements unless they conflict with GASB guidance.

3. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the balance sheet. Fund equity is identified as net position.

4. Budget

The Board adopts an annual budget for the Enterprise Fund. The Budget for the Enterprise Fund is adopted under a basis consistent with GAAP. The Board approves amendments to the annual budget as prepared by the General Manager of the District.

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

A. Summary of Significant Accounting Policies (Continued)

5. Property, Plant and Equipment

Additions to the utility system are recorded at cost or, if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recovered by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	30 years
Office Equipment	5-10 years
Equipment	7-10 years
Water Distribution System	40 years
Vehicles	5-7 years

6. Amortization of Equity Fee and Organizational Costs

The District has assets recorded in the basic financial statements entitled "SUD Conversion Costs, Net." Generally accepted accounting principles require that the District capitalize the costs associated with these assets and amortize those costs over a period not less than 60 months, rather than expensing the entire amount in the year incurred. The expense associated with this amortization appears in the basic financial statements as "Amortization." The amount expensed during the year, was \$ 5,982. The amount recorded as an asset (net of amortization) in the basic financial statements at year end, totaled \$ 14,530.

7. Prepaid Expenses, Supplies and Materials

Prepaid expenses consist of items paid for in the current period to be used in the following accounting period. Prepaid supplies and materials consist of supplies and repair parts for the distribution system, valued at cost. The cost of supplies and materials is recorded as an expense when consumed rather than when purchased.

8. Cash and Cash Equivalents

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

9. Retirement Plan

The District participates in a Simple IRA plan to provide retirement benefits for its employees. Employees may contribute up to the maximum annual amount as set periodically by the Internal Revenue Service. The District matches employee contributions dollar for dollar up to a maximum of 3% of the employee's compensation or the limit set by the Internal Revenue Service, whichever is less. All matching contributions vest immediately. The District's matching contributions to the Simple IRA plan during the fiscal year totaled approximately \$ 7,566.

10. Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave does not vest, but accumulates and is recorded as an expense as it is paid.

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

B. Deposits, Securities and Investments

The District's funds appear to be deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At December 31, 2015, it appears that District cash deposits were properly covered by FDIC insurance or by pledged collateral.

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to be in compliance with the requirements of the Act.

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or securitized certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include deposits in money market accounts and certificates of deposit. All money market accounts and certificates of deposit are reported at share price (fair value) and are presented as cash and cash equivalents.

The following table categorizes the District's investment at year end:

	Credit Rating	Fair Value
Certificate of Deposit	n/a	\$ 492,000
Money Market Accounts	n/a	112,166
Total		<u>\$ 604,166</u>

In addition, the following is disclosed regarding coverage of combined cash balances on the date of highest balance:

- a. Name of bank: Independent Bank, McKinney, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 1,883,698.
- c. Largest cash, savings and time deposit combined account balances amounted to \$ 1,883,698 and occurred during the month of April 2015.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$ 250,000.

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

B. Deposits, Securities and Investments (Continued)

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

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

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

C. Capital Assets

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

	Beginning Balances	Additions and Reclassifications	Retirements	Ending Balances
Land and Improvements	\$ 245,368	\$ -	\$ -	\$ 245,368
Construction in Progress	1,058,276	47,442	751,393	354,325
Buildings	420,715	21,630	-	442,345
Water Distribution System	4,538,599	806,510	-	5,345,109
Vehicles	80,048	234,453	7,307	307,194
Totals at Historical Cost	\$ 6,343,006	\$ 1,110,035	\$ 758,700	\$ 6,694,341
Less Accumulated Depreciation for:				
Buildings	\$ 12,003	\$ 12,856	\$ -	\$ 24,859
Water Distribution System	160,938	184,836	-	345,774
Vehicles	14,946	24,217	5,481	33,682
Total Accumulated Depreciation	\$ 187,887	\$ 221,909	\$ 5,481	\$ 404,315
Net Capital Assets	\$ 6,155,119	\$ 888,126	\$ 753,219	\$ 6,290,026

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

D. Long - Term Obligations

The following schedule presents changes in long-term obligations for the fiscal year:

	Balance Beginning	Additions	Retirements	Balance Ending	Current Portion of Debt
Loans	\$ 2,056,374	\$ 2,030,468	\$ 2,074,439	\$ 2,012,403	\$ 73,397
Total	\$ 2,056,374	\$ -	\$ 2,074,439	\$ 2,012,403	\$ 73,397

Loans Payable

The District executed an agreement with Independent Bank to refinance the USDA – Rural Development Loans for a savings of \$ 566,323 in interest payments. The note is for 20 years and requires monthly principle payments of \$ 11,566 and interest on the unpaid principle at 3.25%.

Payee	Interest Rate	Original Issue	Current Outstanding
Independent Bank	3.250%	\$ 2,030,468	\$ 2,012,403

Maturities of loan balances at year end are as follows:

Year Ending December 31	Principal	Interest	Total Requirements
2016	\$ 73,397	\$ 65,389	\$ 138,786
2017	76,038	62,749	138,787
2018	78,581	60,205	138,786
2019	81,210	57,576	138,786
2020	83,771	55,016	138,787
2021 - 2025	463,520	230,412	693,932
2026 - 2030	546,453	147,480	693,933
2031 - 2035	609,433	49,803	659,236
Totals	\$ 2,012,403	\$ 728,630	\$ 2,741,033

E. Customer Deposits

The District requires each new customer to pay \$ 200, which is held as a refundable deposit to secure payment of the customer's water bill. At year end, the District's obligation totaled \$ 449,900

**LAVON SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

F. Litigation

As of December 31, 2015, the District was involved in a pending litigation with an internet company concerning a lease for space on water towers. Subsequent to the date of the financial statements the pending litigation suit was settled and on February 23, 2016 the District was ordered to pay a judgement in the amount of \$ 52,451.

G. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year end, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Change in Account Principles

During the year, the District adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB 68 created new reporting requirements for pension information. GASB 71 was implemented to resolve issues arising from the implementation of Statement 68.

I. Subsequent Events

District Management has evaluated subsequent events through May 5, 2016, which is the date the financial statements were available to be issued. As of January 26, 2016, the District received formal approval from Texas Commission on Environmental Quality to change the District's name from Lavon Special Utility District to Bear Creek Special Utility District. There do not appear to be any other events occurring after year end that could have a material effect on the financial statements at year end as presented.

TEXAS SUPPLEMENTARY INFORMATION (TSI)
(Other Supplementary Information)

**LAVON SPECIAL UTILITY DISTRICT
SUPPLEMENTARY SCHEDULES INCLUDED WITHIN THIS REPORT
YEAR ENDED DECEMBER 31, 2015**

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The following schedules are not applicable to this District.

- I. Analysis of Taxes Levied and Receivable

RUTHERFORD,
TAYLOR &
COMPANY, P.C.

Certified Public Accountants

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

Members of the Board:

In our opinion, the accompanying information is stated accurately in all material respects in relation to the basic financial statements, taken as a whole, of the Lavon Special Utility District for the twelve months ended December 31, 2015, which are covered by our opinion presented in the first section of this report.

The accompanying information is supplementary to the basic financial statements and is not essential for a fair presentation of financial position, results of operations or cash flows.

Our audit, which was made for the purpose of forming an opinion on the basic financial statements taken as a whole, included such tests of the accounting records, from which the supplementary information was compiled, and such other auditing procedures as we considered necessary in the circumstances.

May 5, 2016
Greenville, Texas

Rutherford Taylor & Company, P.C.

**LAVON SPECIAL UTILITY DISTRICT
ENTERPRISE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Water Sales	\$ 850,000	\$ 850,000	\$ 878,791	\$ 28,791
Charges for Services	860,000	860,000	942,174	82,174
Other Income	70,800	70,800	151,700	80,900
Total Operating Revenues	<u>\$ 1,780,800</u>	<u>\$ 1,780,800</u>	<u>\$ 1,972,665</u>	<u>\$ 191,865</u>
OPERATING EXPENSES				
Payroll and Benefits	\$ 367,500	\$ 367,500	\$ 327,463	\$ 40,037
Water Purchases	500,000	500,000	464,271	35,729
Repairs and Maintenance	45,800	45,800	44,137	1,663
Utilities	65,200	65,200	61,815	3,385
Supplies	124,500	124,500	100,841	23,659
Insurance	179,000	179,000	115,350	63,650
Dues and Fees	8,500	8,500	9,773	(1,273)
Professional and Legal Fees	83,500	83,500	94,699	(11,199)
Depreciation and Amortization	-	-	227,892	(227,892)
Other Operating Costs	1,115,940	1,020,380	237,296	783,084
Total Operating Expenses	<u>\$ 2,489,940</u>	<u>\$ 2,394,380</u>	<u>\$ 1,683,537</u>	<u>\$ 710,843</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest Income	\$ 12,000	\$ 12,000	\$ 10,512	\$ (1,488)
Interest Expense	(12,000)	(12,000)	(103,605)	(91,605)
Gain (Loss) on Sale of Fixed Asset	-	-	1,924	1,924
Net Non-Operating Revenues (Expenses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (91,169)</u>	<u>\$ (91,169)</u>
Change in Net Position	<u>\$ (709,140)</u>	<u>\$ (613,580)</u>	<u>\$ 197,959</u>	<u>\$ 811,539</u>
Net Position - Beginning (January 1)	<u>6,299,119</u>	<u>6,299,119</u>	<u>6,299,119</u>	<u>-</u>
Net Position - Ending (December 31)	<u><u>\$ 5,589,979</u></u>	<u><u>\$ 5,685,539</u></u>	<u><u>\$ 6,497,078</u></u>	<u><u>\$ 811,539</u></u>

**LAVON SPECIAL UTILITY DISTRICT
SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2015**

1. Services provided by the District:

☒ Retail Water ☐ Wholesale Water ☐ Drainage
☐ Retail Wastewater ☐ Wholesale Wastewater ☐ Irrigation
☐ Parks/Recreation ☐ Fire Protection ☐ Security
☐ Solid Waste/Garbage ☐ Flood Control ☐ Roads
☒ Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
☐ Other (specify):

2. Retail Rates Based on 3/4" Meter:

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1000 Gallons Over Minimum		Usage Levels
WATER:	\$ 25.00	0	N	\$ 4.00	0	to 5,000
				\$ 4.25	5,001	to 10,000
				\$ 5.00	10,001	to 15,000
				\$ 6.25	15,001	to 25,000
				\$ 7.00	25,001	to unlimited

District employs winter averaging for wastewater usage? Yes ☒ No

Total charges per 10,000 gallons usage: Water \$ 66.46

b. Water Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	0	0	x1.0	0
≤ 3/4"	2,095	2,055	x1.0	2,055
1"	0	20	x2.5	50
1 1/2"	0	0	x5.0	0
2"	2	20	x8.0	160
3"	0	1	x15.0	15
4"	0	0	x25.0	0
Total Water	0	0		0
Total Wastewater	0	0	x1.0	0

3. Total water consumption (rounded to the nearest 1,000) during the fiscal year:

Gallons pumped into system: 214,204,600
Gallons billed to customers: 200,056,600
Water Accountability Percent: 93.4%

**LAVON SPECIAL UTILITY DISTRICT
SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2015**

4. Standby Fees: District does not levy standby fees.

5. Location of District:
County(ies) in which district is located Collin / Rockwall
Is the District located entirely in one county? Yes _____ No X
Is the District located within a city? Entirely _____ Partly X Not at all _____
City(ies) in which District is located. Lavon
Is the District located within a city's extra territorial jurisdiction (ETJ)?
Entirely _____ Partly X Not at all _____
ETJ's in which District is located Lavon, Rockwall, Fate
Is the general membership of the Board appointed by an office outside the District?
Yes _____ No X
If Yes, by whom? N/A

**LAVON SPECIAL UTILITY DISTRICT
ENTERPRISE FUND EXPENDITURES
YEAR ENDED DECEMBER 31, 2015**

Payroll and Benefits	\$	327,463
Water Purchases		464,271
Repairs and Maintenance		44,137
Utilities		61,815
Supplies		100,841
Insurance		115,350
Dues and Fees		9,773
Professional and Legal Fees		94,699
Depreciation and Amortization		227,892
Other Operating Costs		237,296
Interest Expense		<u>103,605</u>
Total Expenses	\$	<u><u>1,787,142</u></u>

Number of persons employed by the District:

Full Time	<u>6</u>
Part Time	<u>0</u>

**LAVON SPECIAL UTILITY DISTRICT
TEMPORARY INVESTMENTS
YEAR ENDED DECEMBER 31, 2015**

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at Year End
Money Market		0.010%		\$ 112,166	*
Discover Bank CD	1042016	4.650%	01/04/16	92,000	*
Goldman Sachs Bank USA CD	4182016	0.500%	4/18/2016	100,000	*
Ally Bank CD	4172017	1.000%	4/17/2017	100,000	*
Ally Bank CD	71717	1.150%	7/17/2017	100,000	*
BMO Harris Bank Natl Assn CD	102816	0.550%	10/28/2016	100,000	*
Total				<u>\$ 604,166</u>	<u>\$ -</u>

* Interest is paid on a monthly basis.

**LAVON SPECIAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
INDEPENDENT BANK - BY YEARS
YEAR ENDED DECEMBER 31, 2015**

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 73,397	\$ 65,389	\$ 138,786
2017	76,038	62,749	138,787
2018	78,581	60,205	138,786
2019	81,210	57,576	138,786
2020	83,771	55,016	138,787
2021 - 2025	463,520	230,412	693,932
2026 - 2030	546,453	147,480	693,933
2031 - 2035	609,433	49,803	659,236
			<u>-</u>
Total	<u>\$ 2,012,403</u>	<u>\$ 728,630</u>	<u>\$ 2,741,033</u>

**LAVON SPECIAL UTILITY DISTRICT
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
ALL PROPRIETARY FUND TYPES
FIVE YEARS ENDED DECEMBER 31, 2015**

	AMOUNTS					PERCENT OF FUND TOTAL REVENUE				
	2015	2014	2013*	2012	2011	2015	2014	2013*	2012	2011
OPERATING REVENUE										
Water Sales	\$ 878,791	\$ 709,683	\$ 523,309	\$ -	\$ -	44.55%	31.97%	58.86%	0.00%	0.00%
Customer Charges/Fees	942,174	1,344,762	277,134	-	-	47.76%	60.58%	31.17%	0.00%	0.00%
Other Income	151,700	165,450	88,593	-	-	7.69%	7.45%	9.97%	0.00%	0.00%
TOTAL OPERATING REVENUE	\$ 1,972,665	\$ 2,219,895	\$ 889,036	\$ -	\$ -	100.00%	100.00%	100.00%	0.00%	0.00%
OPERATING EXPENSES										
Payroll and Benefits	\$ 327,463	\$ 282,718	\$ 110,160	\$ -	\$ -	16.60%	12.74%	12.39%	0.00%	0.00%
Water Purchases	464,271	423,323	198,326	-	-	23.54%	19.07%	22.31%	0.00%	0.00%
Repairs and Maintenance	44,137	19,411	28,996	-	-	2.24%	0.87%	3.26%	0.00%	0.00%
Utilities	61,815	50,671	24,519	-	-	3.13%	2.28%	2.76%	0.00%	0.00%
Supplies	100,841	132,870	28,847	-	-	5.11%	5.99%	3.24%	0.00%	0.00%
Insurance	115,350	85,617	36,472	-	-	5.85%	3.86%	4.10%	0.00%	0.00%
Dues and Fees	9,773	7,693	3,494	-	-	0.50%	0.35%	0.39%	0.00%	0.00%
Professional and Legal Fees	94,699	51,274	24,195	-	-	4.80%	2.31%	2.72%	0.00%	0.00%
Depreciation and Amortization	227,892	101,834	92,035	-	-	11.55%	4.59%	10.35%	0.00%	0.00%
Other Operating Costs	237,296	109,486	62,025	-	-	12.03%	4.93%	6.98%	0.00%	0.00%
TOTAL OPERATING EXPENSES	\$ 1,683,537	\$ 1,264,897	\$ 609,069	\$ -	\$ -	85.34%	56.98%	68.51%	0.00%	0.00%
NET OPERATING REVENUE (EXPENSES)	\$ 289,128	\$ 954,998	\$ 279,967	\$ -	\$ -	14.66%	43.02%	31.49%	0.00%	0.00%
NON-OPERATING REVENUE (EXPENSES)										
Interest Income	\$ 10,512	\$ 2,986	\$ 6,065	\$ -	\$ -	0.53%	0.13%	0.68%	0.00%	0.00%
Interest Expense	(103,605)	(96,610)	(49,123)	-	-	-5.25%	-4.35%	-5.53%	0.00%	0.00%
Gain (Loss) on Sale of Fixed Assets	1,924	-	-	-	-	0.10%	0.00%	0.00%	0.00%	0.00%
NET NON-OPERATING REVENUE (EXPENSES)	\$ (91,169)	\$ (93,624)	\$ (43,058)	\$ -	\$ -	-4.62%	-4.22%	-4.84%	0.00%	0.00%
NET REVENUE (EXPENSES)	\$ 197,959	\$ 861,374	\$ 236,909	\$ -	\$ -	10.04%	38.80%	26.65%	0.00%	0.00%

*For the six (6) months ended December 31, 2013, initial operating period.

**LAVON SPECIAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
YEAR ENDED DECEMBER 31, 2015**

Complete District Mailing Address: P.O. Box 188, Lavon, TX 75166

District Business Telephone Number: 972-843-2101

Submission Date of the most recent District Registration Form:

Limit on Fees of Office that a Director may receive during a fiscal year:

<u>Names:</u>	<u>Term of Office (Elected or Appointed or Date Hired)</u>	<u>Fees of Office Paid FYE Date</u>	<u>Expense Reimbursements FYE Date</u>	<u>Title at Year End</u>
Board Members:				
Herman Stork	3 Yrs	\$ 588	\$ -	President
Bryan Block	3 Yrs	\$ 588	\$ -	Vice-Pres
Cheryl Crowder	3 Yrs	\$ 588	\$ -	Secretary
Jeffrey Bialecki	3 Yrs	\$ 588	\$ -	Treasurer
David Barnhart	1 Yr	\$ 588	\$ -	Director
David Adcock	3 Yrs	\$ 588	\$ -	Director
Robert Haynes	3 Yrs	\$ 49	\$ -	Director
Kevin Hutchinson	3 Yrs	\$ 588	\$ -	Director
Consultants:				
Coats Rose		\$ 48,166	\$ -	Attorney
Rutherford, Taylor & Company, P.C		\$ 7,750	\$ -	Auditor
Kimley Horn		\$ 56,477	\$ -	Engineer

RUTHERFORD, TAYLOR & COMPANY, P.C.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

JAMES A. RUTHERFORD
(1917-2003)

MICHAEL E. TAYLOR
CERTIFIED PUBLIC ACCOUNTANT

ROBERT K. LAKE
CERTIFIED PUBLIC ACCOUNTANT

GLENETTE COX
CERTIFIED PUBLIC ACCOUNTANT

2802 WASHINGTON STREET
GREENVILLE, TEXAS 75401-4115
903-455-6252
FAX 903-455-6667

1300 W. AUDIE MURPHY SUITE 5
FARMERSVILLE, TEXAS 75442
972-782-7572

To the Board of Directors
Lavon Special Utility District

We have audited the financial statements of Lavon Special Utility District (District) for the six months ended December 31, 2015, and have issued our report thereon dated May 5, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lavon Special Utility District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2015 year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimate(s) affecting the financial statement presentation.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 5, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors as well as throughout our audit visit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Lavon Special Utility District and is not intended to be and should not be used by anyone other than these specified parties.

May 5, 2016
Greenville, Texas

Michael Taylor

BEAR CREEK SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2016

RUTHERFORD, TAYLOR & COMPANY, P.C.
Certified Public Accountants
2802 Washington Street
Greenville, Texas 75401
(903) 455-6252

**BEAR CREEK SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2016**

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BEAR CREEK SPECIAL UTILITY DISTRICT

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS

COUNTY OF Collin

I, Herman Strick of the
(Name of Duly Authorized District Representative)

Bear Creek Special Utility District

(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board
of Directors on the 9th day of May, 2017
its annual audit report for the fiscal period ended December 31, 2016
and that copies of the annual report have been filed in the District's office, located at _____

P O Box 188 Lavon, TX 75166

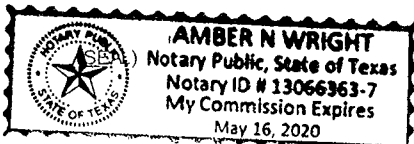
(Address of the District's Office)

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

Date: May 9th 2017 By Herman Strick
(Signature of District Representative)

Herman Strick
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this 9th day of May, 2017



[Signature]
(Signature of Notary)

My Commission Expires On May 16, 2020
Notary Public of the State of Texas

FINANCIAL SECTION

RUTHERFORD,
TAYLOR &
COMPANY, P.C.
Certified Public Accountants

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

INDEPENDENT AUDITOR'S REPORT

Members of the Board:

We have audited the accompanying financial statements of the business type activities, which are the proprietary funds of the Bear Creek Special Utility District (District), as of and for the twelve months ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, which are the proprietary funds of the Bear Creek Special Utility District as of December 31, 2016, and the respective changes in financial position and cash flows thereof for the twelve months then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note H to the financial statements, the District adopted various accounting pronouncements issued by the Governmental Accounting Standards Board during the year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The schedules identified as Texas Supplementary Information are presented for the purpose of additional analysis, and are not a required part of the basic financial statements.

The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

May 1, 2017
Greenville, Texas



RUTHERFORD,
TAYLOR &
COMPANY, P.C.
Certified Public Accountants

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

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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

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, which are the proprietary funds of the Bear Creek Special Utility District (District), as of and for the twelve months ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 1, 2017.

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 opinion 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 District'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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Report on Internal Control – Continued

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 1, 2017
Greenville, Texas

Russell D. Long, Jr.

BEAR CREEK SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

Financial Statements Findings (Section I)

16-01

Depository Security

Criteria: Districts are required to deposit funds into multiple financial institutions under a depository contract unless funds placed will not exceed the available Federal Deposit Insurance Corporation coverage.

Condition Found: The District placed funds outside of their depository agreement with financial institutions seeking to increase investment earnings. The District did this by placing amounts of \$ 250,000 with these institutions. The District however did not structure the agreements to have any investment earnings returned to the District but to roll over the earnings into the agreement. This increased the value of the certificates above the FDIC limits. As such the funds in excess of the FDIC coverage are at risk requiring a depository agreement and appropriate security.

Questioned Costs/Basis: None

Instances/Universe: The District's certificates of deposit throughout the year included investment earnings which exceeded the FDIC coverage.

Effect. District funds are at risk of loss during periods of inadequate security.

Recommendation. The District should restrict the amounts invested to allow for investment earnings to be rolled into the original balance or have any investment earnings returned to the District as it is earned

BEAR CREEK SPECIAL UTILITY DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

Prior Year Findings (Section II)

2015 – 1

Depository Security

Condition: The District maintained accounts in excess of FDIC limits throughout the year. At year end, the District closed all accounts in these outside financial institutions

Status: Closed

2015 – 2

Expenditures Over Appropriations

Condition. The budget adopted and amended accounted for amounts expended in the year. Excess amounts have reduced in value to levels deemed immaterial

Status: Complete

BEAR CREEK SPECIAL UTILITY DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2016

Corrective Action Plans (Section III)

16-01

Depository Security

The District will restrict any future certificate of deposit agreements to \$ 240,000 with any one financial institution. By restricting the level of investment, any investment earnings will not exceed the available FDIC coverage. Upon maturity the investments identified will be reduced to the appropriate level which allows for earnings to be added to the certificates.

The District has transferred all monies, as of December 2016, from non-secured certificates of deposit into the financial institution under the depository contract. The District will no longer maintain cash accounts outside of the depository contract.

Contact Person: Camille Reagan

**BEAR CREEK SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

This section of Bear Creek Special Utility District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year. Please read it in conjunction with the District's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

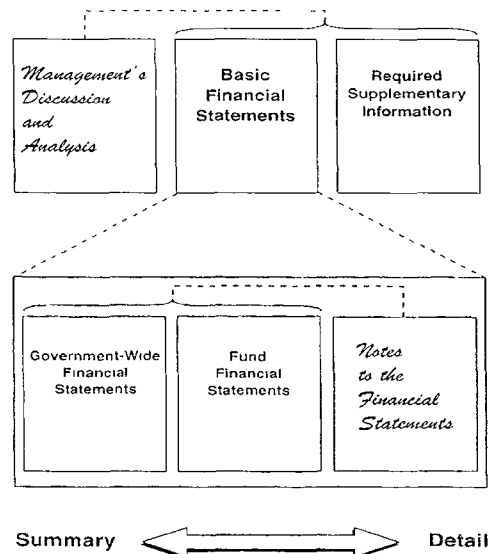
- The District's total net position was \$ 6,800,769 at year end.
- During the year, the District's expenses were \$ 303,691 less than the \$ 2,267,534 generated from charges for services and other revenues for business-type activities
- The District entered into no new debt agreements during the year

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements and required supplementary information. Management's Discussion and Analysis provides an overview of the financial activities of the District. The basic financial statements include three statements that present a financial view of the District: The Statement of Fund Net Position presents financial information, including assets and liabilities, representing a one day snapshot; the Statement of Revenues, Expenses and Changes in Fund Net Position presents a review of operating and non-operating activities for the fiscal period; the Statement of Cash Flows reflects the inflows and outflows of cash resources.

- Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as water sales.

The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net position was \$ 6,800,769 at year end.

	2016	2015	Total Percentage Change 2015 - 2016
Assets.			
Cash and Cash Equivalents	\$ 1,775,483	\$ 1,679,340	5.73%
Other Assets	382,706	164,207	133.06%
Non-Current Assets	6,494,439	6,304,981	3.00%
Restricted Assets	610,073	857,369	-28.84%
Total Assets	\$ 9,262,701	\$ 9,005,897	2.85%
Liabilities.			
Current Liabilities	\$ 139,071	\$ 119,913	15.98%
Long-term Liabilities	2,322,861	2,388,906	-2.76%
Total Liabilities	\$ 2,461,932	\$ 2,508,819	-1.87%
Net Position			
Net Investment in Capital Assets	4,547,218	4,277,623	6.30%
Restricted	833,503	698,379	19.35%
Unrestricted	1,420,048	1,521,076	-6.64%
Total Net Position	\$ 6,800,769	\$ 6,497,078	4.67%

**BEAR CREEK SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

Table A-2 Changes in Bear Creek Special Utility District's Net Position			
	2016	2015	Total Percentage Change 2015 - 2016
Program Revenues			
Charges for Services	\$ 1,944,335	\$ 1,972,665	-1.44%
Total Revenues	\$ 1,944,335	\$ 1,972,665	-1.44%
Expenses			
Water Utilities	\$ 1,899,381	\$ 1,683,537	12.82%
Total Expenses	\$ 1,899,381	\$ 1,683,537	12.82%
Non-Operating Revenues (Expenses).			
Developer/Member Contributions	301,930	-	100.00%
Interest Income	6,269	10,512	-40.36%
Interest Expense	(64,462)	(103,605)	-37.78%
Gain (Loss) on Sale of Fixed Assets	7,500	1,924	289.81%
Rental Income	7,500	-	100.00%
Net Non-Operating Revenues	\$ 258,737	\$ (91,169)	-383.80%
Change in Net Position	\$ 303,691	\$ 197,959	53.41%
Net Position (Beginning) - January 1	6,497,078	6,299,119	3.14%
Net Position (Ending) - December 31	\$ 6,800,769	\$ 6,497,078	4.67%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year end, the District had invested \$ 7,147,205 in a broad range of capital assets, including land, water distribution system, buildings, equipment and vehicles (see Table A-3).

Table A-3 Bear Creek Special Utility District's Capital Assets			
	2016	2015	Total Percentage Change 2015 - 2016
Land and Improvements	\$ 255,368	\$ 245,368	4.08%
Construction in Progress	670,791	354,325	89.32%
Water Distribution System	5,373,339	5,345,109	0.53%
Vehicles and Equipment	395,837	307,194	28.86%
Buildings	451,870	442,345	2.15%
Totals at Historical Cost	\$ 7,147,205	\$ 6,694,341	6.76%
Total Accumulated Depreciation	(661,839)	(404,315)	63.69%
Net Capital Assets	\$ 6,485,366	\$ 6,290,026	3.11%

**BEAR CREEK SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

Long Term Debt

At year end, the District had \$ 1,938,249 in debt outstanding as shown in Table A-4. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Table A-4			
Bear Creek Special Utility District's Long Term Debt			
	2016	2015	Total Percentage Change 2015 - 2016
Loans Payable	\$ 1,938,249	\$ 2,012,403	-3.68%
Total Debt Payable	\$ 1,938,249	\$ 2,012,403	-3.68%

BUDGET, ECONOMIC ENVIRONMENT AND RATES

At this time Bear Creek Special Utility District is not aware of any decisions or conditions that would impact the District's operations through 2017.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Camille Reagan, General Manager for the District.

BASIC FINANCIAL STATEMENTS

BEAR CREEK SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2016

	Enterprise Fund Water Utilities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 1,775,483
Accounts Receivable	118,483
Prepaid Expenses - Supplies, Materials and Other	264,223
Total Current Assets	<u>\$ 2,158,189</u>
Restricted Assets	
Cash - Board Restricted	<u>\$ 610,073</u>
Total Restricted Assets	<u>\$ 610,073</u>
Non-Current Assets:	
SUD Conversion Costs, Net	\$ 8,973
Capital Assets:	
Land	255,368
Construction in Progress	670,791
Water Distribution System	5,373,439
Buildings	451,870
Vehicles and Equipment	395,837
Accumulated Depreciation	(661,839)
Total Non-Current Assets	<u>\$ 6,494,439</u>
Total Assets	<u>\$ 9,262,701</u>

The accompanying notes are an integral part of this statement.

BEAR CREEK SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2016

	Enterprise Fund Water Utilities
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 22,044
Payroll Liabilities Payable	11,673
TCEQ Assessment Payable	5,545
Accrued Benefits Payable	19,218
Accrued Interest Payable	4,553
Loans Payable, Current Portion	76,038
Total Current Liabilities	<u>\$ 139,071</u>
Noncurrent Liabilities:	
Customer Deposits	\$ 460,650
Loans Payable, less Current Portion	1,862,211
Total Noncurrent Liabilities	<u>\$ 2,322,861</u>
Total Liabilities	<u>\$ 2,461,932</u>
NET POSITION	
Net Investment in Capital Assets	\$ 4,547,218
Restricted	833,503
Unrestricted	1,420,048
Total Net Position	<u>\$ 6,800,769</u>

The accompanying notes are an integral part of this statement.

BEAR CREEK SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016

	Enterprise Fund Water Utilities
OPERATING REVENUES	
Water Sales	\$ 1,116,528
Customer Charges/Fees	827,807
Total Operating Revenues	<u>\$ 1,944,335</u>
OPERATING EXPENSES	
Payroll and Benefits	\$ 381,896
Water Purchases	551,497
Repairs and Maintenance	33,382
Utilities	60,262
Supplies	237,891
Insurance	114,604
Dues and Fees	8,404
Depreciation and Amortization	263,506
Professional Fees	60,252
Other Operating Expenses	187,687
Total Operating Expenses	<u>\$ 1,899,381</u>
Net Operating Revenue (Expenses)	<u>\$ 44,954</u>
NON-OPERATING REVENUE (EXPENSES)	
Developer/Member Contributions	\$ 301,930
Interest Income	6,269
Interest Expense	(64,462)
Gain (Loss) on Sale of Fixed Assets	7,500
Rental Income	7,500
Net Non-Operating Revenue (Expenses)	<u>\$ 258,737</u>
Change in Net Position	<u>\$ 303,691</u>
Total Net Position - Beginning (January 1)	<u>6,497,078</u>
Total Net Position - Ending (December 31)	<u><u>\$ 6,800,769</u></u>

The accompanying notes are an integral part of this statement.

**BEAR CREEK SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016**

	Enterprise Fund Water Utilities
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,912,273
Cash Payments for Goods and Services	(1,466,714)
Cash Payments to Employees	(338,910)
Net Cash Provided by (Used for) Operating Activities	\$ 106,649
Cash Flows from Investing Activities:	
Purchase of Property, Plant and Equipment	\$ (452,964)
Interest Received	6,269
(Increase) Decrease in Restricted Assets	247,296
Sale of Capital Assets	7,500
Net Cash Provided by (Used for) Investing Activities	\$ (191,899)
Cash Flows from Financing Activities:	
Payments of Principal on Long-term Financing	\$ (74,154)
Payments of Interest on Long-term Financing	(64,633)
Increase (Decrease) in Customer Deposits	10,750
Developer/Member Contributions	301,930
Rental Income Received	7,500
Net Cash Provided by (Used for) Financing Activities	\$ 181,393
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 96,143
Cash and Cash Equivalents - Beginning (January 1)	1,679,340
Cash and Cash Equivalents - Ending (December 31)	\$ 1,775,483
Reconciliation of Change in Equity to Net Cash Provided by Operating Activities	
Operating Income Over (Under) Operating Expense	
Adjustments to Reconcile Operating Income to Net Cash	44,954
Provided by Operating Activities:	
Depreciation and Amortization Expense	263,506
(Increase) Decrease in Prepaid Expenses - Supplies, Materials and Other	(186,437)
(Increase) Decrease in Accounts Receivable	(32,062)
Increase (Decrease) in Accounts Payable	7,514
Increase (Decrease) in Payroll Liabilities Payable	(165)
Increase (Decrease) in Accrued Benefits Payable	8,298
Increase (Decrease) in TCEQ Assessment Payable	1,041
Net Cash Provided by (Used for) Operating Activities	\$ 106,649

The accompanying notes are an integral part of this statement.

**BEAR CREEK SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

A. Summary of Significant Accounting Policies

The Lavon Special Utility District was approved by the voters within the District on May 14, 2011. Effective January 1, 2016, the Lavon Special Utility District became known as the Bear Creek Special Utility District (District). The District is an organization as set forth under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapter 65 of the Texas Water Code.

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

1. Reporting Entity

The Board of Directors (Board), a seven member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to providing water services within the jurisdiction of the Bear Creek Special Utility District. Members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District is not included in any other governmental "Reporting Entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units presented.

2. Basis of Presentation

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenue and expenses. The fund type utilized by the District is described below:

a. Proprietary fund types include the following –

The *Enterprise Fund* is used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989 and continue to follow new FASB pronouncements unless they conflict with GASB guidance.

3. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the balance sheet. Fund equity is identified as net position.

4. Budget

The Board adopts an annual budget for the Enterprise Fund. The Budget for the Enterprise Fund is adopted under a basis consistent with GAAP. The Board approves amendments to the annual budget as prepared by the General Manager of the District

**BEAR CREEK SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

A Summary of Significant Accounting Policies (Continued)

5. Property, Plant and Equipment

Additions to the utility system are recorded at cost or, if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recovered by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	30 years
Office Equipment	5-10 years
Equipment	7-10 years
Water Distribution System	40 years
Vehicles	5-7 years

6 Amortization of Equity Fee and Organizational Costs

The District has assets recorded in the basic financial statements entitled "SUD Conversion Costs, Net." Generally accepted accounting principles require that the District capitalize the costs associated with these assets and amortize those costs over a period not less than 60 months, rather than expensing the entire amount in the year incurred. The expense associated with this amortization appears in the basic financial statements as "Amortization." The amount expensed during the year, was \$ 5,982. The amount recorded as an asset (net of amortization) in the basic financial statements at year end, totaled \$ 8,973.

7. Prepaid Expenses, Supplies and Materials

Prepaid expenses consist of items paid for in the current period to be used in the following accounting period. Prepaid supplies and materials consist of supplies and repair parts for the distribution system, valued at cost. The cost of supplies and materials is recorded as an expense when consumed rather than when purchased.

8. Cash and Cash Equivalents

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

9. Retirement Plan

The District participates in a Simple IRA plan to provide retirement benefits for its employees. Employees may contribute up to the maximum annual amount as set periodically by the Internal Revenue Service. The District matches employee contributions dollar for dollar up to a maximum of 3% of the employee's compensation or the limit set by the Internal Revenue Service, whichever is less. All matching contributions vest immediately. The District's matching contributions to the Simple IRA plan during the fiscal year totaled approximately \$ 9,061.

10 Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave does not vest, but accumulates and is recorded as an expense as it is paid.

**BEAR CREEK SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

B. Deposits, Securities and Investments

The District's funds appear to be deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At December 31, 2016, it appears that District cash deposits were properly covered by FDIC insurance or by pledged collateral.

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to be in compliance with the requirements of the Act.

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or securitized certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include deposits in money market accounts and certificates of deposit. All money market accounts and certificates of deposit are reported at share price (fair value) and are presented as cash and cash equivalents.

The following table categorizes the District's investment at year end:

	Credit Rating	Fair Value
Certificate of Deposit	n/a	\$ 600,000
Money Market Accounts	n/a	10,073
Total		<u>\$ 610,073</u>

In addition, the following is disclosed regarding coverage of combined cash balances on the date of highest balance:

- a. Name of bank: Independent Bank, McKinney, Texas
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 2,108,193.
- c. Largest cash, savings and time deposit combined account balances amounted to \$ 2,129,064 and occurred during the month of December 2016.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$ 250,000.

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

**BEAR CREEK SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

B. Deposits, Securities and Investments (Continued)

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Districts' name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

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

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

C Capital Assets

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

	Beginning Balances	Additions and Reclassifications	Retirements	Ending Balances
Land and Improvements	\$ 245,368	\$ 10,000	\$ -	\$ 255,368
Construction in Progress	354,325	316,466	-	670,791
Buildings	442,345	9,525	-	451,870
Water Distribution System	5,345,110	28,229	-	5,373,339
Vehicles	307,195	88,642	-	395,837
Totals at Historical Cost	\$ 6,694,343	\$ 452,862	\$ -	\$ 7,147,205
Less Accumulated Depreciation for				
Buildings	\$ 24,859	\$ 14,326	\$ -	\$ 39,185
Water Distribution System	345,774	36,908	-	382,682
Vehicles	33,682	206,290	-	239,972
Total Accumulated Depreciation	\$ 404,315	\$ 257,524	\$ -	\$ 661,839
Net Capital Assets	\$ 6,290,028	\$ 195,338	\$ -	\$ 6,485,366

**BEAR CREEK SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

D. Long - Term Obligations

The following schedule presents changes in long-term obligations for the fiscal year:

	Balance Beginning	Additions	Retirements	Balance Ending	Current Portion of Debt
Loans	\$ 2,012,403	\$ -	\$ 74,154	\$ 1,938,249	\$ 76,038
Total	\$ 2,012,403	\$ -	\$ 74,154	\$ 1,938,249	\$ 76,038

Loans Payable

The District executed an agreement with Independent Bank to refinance the USDA – Rural Development Loans for a savings of \$ 566,323 in interest payments. The note is for 20 years and requires monthly principle payments of \$ 11,566 and interest on the unpaid principle at 3.25%.

Payee	Interest Rate	Original Issue	Current Outstanding
Independent Bank	3.250%	\$ 2,030,468	\$ 1,938,249
Total			\$ 1,938,249

Maturities of loan balances at year end are as follows:

Year Ending December 31	Principal	Interest	Total Requirements
2017	\$ 76,038	\$ 62,749	\$ 138,787
2018	78,581	60,205	138,786
2019	81,210	57,576	138,786
2020	83,771	55,016	138,787
2021	86,729	52,057	138,786
2022-2026	479,027	214,906	693,933
2027-2031	564,734	129,199	693,933
2032-2035	488,159	31,533	519,692
Totals	\$ 1,938,249	\$ 663,241	\$ 2,601,490

E. Customer Deposits

The District requires each new customer to pay \$ 200, which is held as a refundable deposit to secure payment of the customer's water bill. At year end, the District's obligation totaled \$ 460,650

BEAR CREEK SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

F. Litigation

As of year end, the District was not involved in a pending litigation.

G. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year end, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Subsequent Events

District Management has evaluated subsequent events through May 1, 2017, which is the date the financial statements were available to be issued. There do not appear to be any events occurring after year end that could have a material effect on the financial statements at year end as presented.

TEXAS SUPPLEMENTARY INFORMATION (TSI)
(Other Supplementary Information)

**BEAR CREEK SPECIAL UTILITY DISTRICT
SUPPLEMENTARY SCHEDULES INCLUDED WITHIN THIS REPORT
YEAR ENDED DECEMBER 31, 2016**

Exhibit ID	Exhibit Title	Page
	Independent Auditor's Report on Supplementary Schedules	28
	Budgetary Comparison Schedule – Enterprise Fund	29
TSI-1	Services and Rates	30
TSI-2	Enterprise Fund Expenditures	32
TSI-3	Temporary Investments	33
TSI-5	Long-Term Debt Service Requirements by Years	34
TSI-7	Comparative Schedule of Revenues and Expenses	
	Enterprise Fund - Five Years	35
TSI-8	Board Members, Key Personnel and Consultants	36

The following schedules are not applicable to this District.

- I. Analysis of Taxes Levied and Receivable