

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Financial Statements
(With Auditor's Report Thereon)

For the Year Ended September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Wylie Northeast Special Utility District

Wylie, Texas

We have audited the accompanying financial statements of the governmental activities and the business-type activities the Wylie Northeast Special Utility District as of and for the year ended September 30, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the Wylie Northeast Special Utility District, as of September 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wylie Northeast Special Utility District's basic financial statements. The supplemental schedules are presented for purposes of additional analysis as required by the *Water District Financial Management Guide* and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
Frisco, Texas
February 7, 2017

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Management's Discussion and Analysis
For the Year Ended September 30, 2016

As management of the Wylie Northeast Special Utility District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2016.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,429,211 (Net Position). Of this amount \$2,558,640, (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The District had \$1,572,198 of Operating Income.
- The District's Total Net Position increased by \$1,494,296.
- The District spent \$517,884 on Capital Assets.
- The District decreased Long-Term Debt by \$85,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) government-wide financial statements and 2) notes to the financial statements.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The business-type activity of the District is water service.

The government-wide financial statements include only the District itself (known as the primary government).

The government-wide financial statements can be found on pages 8-9 of this report.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Management's Discussion and Analysis
For the Year Ended September 30, 2016

Fund Accounting. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The only fund of the District is a proprietary fund. The proprietary fund is considered to be a major fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-23 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,429,211 at the close of the most recent fiscal year.

Approximately 42 percent of the District's net position reflects its investment in capital assets (e.g. distribution system, land and easements, and equipment). The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. *Unrestricted net position* (58 percent) may be used to meet the District's ongoing obligations to customers and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all categories of net position for the government as a whole.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Management's Discussion and Analysis
For the Year Ended September 30, 2016

Financial Analysis of the District as a Whole

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT - Net Position		
	2016	2015
Assets:		
Cash & Cash Equivalents	2,182,524	1,553,621
Other Assets	705,135	294,756
Non-Current Assets	4,221,571	3,861,290
Total Assets	<u>\$ 7,109,230</u>	<u>\$ 5,709,667</u>
Liabilities:		
Current Liabilities	420,019	423,752
Non-Current Liabilities	2,260,000	2,351,000
Total Liabilities	<u>2,680,019</u>	<u>2,774,752</u>
Net Position:		
Net Investment in Capital Assets	1,870,571	1,415,133
Unrestricted	2,558,640	1,519,782
Total Net Position	<u>\$ 4,429,211</u>	<u>\$ 2,934,915</u>

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT - Change in Net Position		
	2016	2015
Program Revenue:		
Charges for Services	\$ 2,539,284	\$ 2,060,748
Other	80,303	88,215
	2,619,587	2,148,963
General Revenues:		
Interest Income	9,402	1,457
Intergovernmental Revenue	362,343	-
Total Revenues	<u>2,991,332</u>	<u>2,150,420</u>
Expenses:		
Water	1,238,679	1,144,427
Depreciation	157,603	149,661
Interest	100,754	110,519
Total Expenses	<u>1,497,036</u>	<u>1,404,607</u>
Increase/(Decrease) in Net Position	1,494,296	745,813
Net Position - Beginning	2,934,915	2,189,102
Net Position - Ending	<u>\$ 4,429,211</u>	<u>\$ 2,934,915</u>

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Management's Discussion and Analysis
For the Year Ended September 30, 2016

Capital Asset & Debt Administration

Capital Assets. The District's investment in capital assets for its business-type activities as of September 30, 2016, amounts to \$4,221,571 (Net of Accumulated Depreciation). This Investment in Capital Assets includes Wells, Storage, Distribution System, Land, Easements, Buildings, Equipment, and Water Rights.

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

- Completion of Waterline Relocation project on FM 2514 for \$438,957.
- Purchase of a flow jetter (sewer equipment) for \$34,281.
- Purchase of SCADA Integration System for \$33,125.

Additional information on the District's Capital Assets can be found in Note 3.C. on page 21 of this report.

Long-Term Debt. The District has \$1,660,000 of Revenue Bonds, 2007 Series, outstanding secured by a first lien on and pledge of the net revenues of the District.

The District has \$691,000 of Revenue Bonds, Series 2015, outstanding secured by first lien on and pledge of the net revenues of the District.

Additional information on the District's long-term debt can be found in note 3.D. on page 21-22.

Economic Factors and Next Year's Budgets & Rates

At the July 12, 2016 regular meeting of the Board of Directors, Ordinance No. 2016-001 was adopted amending service rates. At the September 13, 2016 meeting, ordinance No. 2016-004 was adopted amending sewer rates. It is the Board's intention that the district be able to operate with an increase in net position even if new customer tap fees and inspection fees are not available. It is the Board's goal to have an annual increase in net position. This increase will insure the District's ability to maintain and improve the system and its services to customers. The new rates will be effective October 1, 2016.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Wylie Northeast Special Utility District, P. O. Box 1029, Wylie, Texas 75098.

BASIC FINANCIAL STATEMENTS

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Statement of Net Position
September 30, 2016

	<u>Primary Government</u> <u>Business-Type</u> <u>Activities</u>
ASSETS	
Cash & Investments	\$ 1,939,517
Cash & Investments - Restricted	243,007
Accounts Receivable (Net)	215,322
Other Receivables	329,218
Inventories	160,595
Depreciable Capital Assets, net	4,008,233
Land and Non-Depreciable Assets	213,338
Total Assets	7,109,230
 LIABILITIES	
Accounts Payable	17,877
Accrued Interest Payable	12,118
Other Accrued Liabilities	13,599
Member Deposits	285,425
Noncurrent Liabilities:	
Due within one year	91,000
Due in more than one year	2,260,000
Total Liabilities	2,680,019
 NET POSITION	
Net Investment in Capital Assets	1,870,571
Unrestricted	2,558,640
Total Net Position	\$ 4,429,211

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

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenue Charges For Services	Net (Expense)/Revenue and Changes in Net Position <u>Primary Government</u> Business-Type Activities
Primary Government:			
Business-Type Activities:			
Water	\$ 1,238,679	2,539,284	1,300,605
Interest on Long-Term Debt	100,754	-	(100,754)
Depreciation & Amortization	157,603	-	(157,603)
Total Business-Type Activities	1,497,036	2,539,284	1,042,248
Total Primary Government	\$ 1,497,036	2,539,284	1,042,248
General Revenues:			
Investment Earnings			9,402
Intergovernmental Revenue			362,343
Miscellaneous Income			80,303
Total General Revenues			452,048
Change in Net Position			1,494,296
Net Position - Beginning - As Restated			2,934,915
Net Position - Ending			\$ 4,429,211

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

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Statement of Net Position - Proprietary Fund
September 30, 2016

ASSETS

Current Assets:

Cash & Cash Equivalents	1,918,301
Cash & Cash Equivalents - Restricted	243,007
Investments	21,216
Receivables:	
Water Billings	220,322
Less: Allowance for Uncollectibles	(5,000)
Other Receivables	329,218
Supplies Inventory	160,595
Total Current Assets	<u><u>2,887,659</u></u>

Non-Current Assets:

Capital Assets:

Land	213,338
Buildings & Improvements	123,826
Vehicles	159,146
Water Services Equipment	119,347
Office Equipment	135,480
Water Distribution System	5,511,565
Less: Accumulated Depreciation	<u>(2,041,131)</u>

Total Capital Assets (Net of Accumulated Depreciation) 4,221,571

Total Non-Current Assets 4,221,571

Total Assets \$ 7,109,230

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

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Statement of Net Position - Proprietary Fund
September 30, 2016
continued

LIABILITIES

Current Liabilities:

Accounts Payable	17,877
Accrued Expenses	13,599
Member Deposits	285,425
Payable from Restricted Assets:	
Accrued Interest	12,118
Current Portion of Notes & Bonds Payable	91,000
Total Current Liabilities	420,019

Non-Current Liabilities:

Bonds Payable	2,260,000
Total Non-Current Liabilities	2,260,000

Total Liabilities	2,680,019
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NET POSITION

Net Investment in Capital Assets	1,870,571
Unrestricted	2,558,640
Total Net Position	4,429,211

Total Liabilities & Net Position	\$ 7,109,230
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The notes to the financial statements are an integral part of this statement.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Statement of Revenues, Expenses and
Changes in Net Position - Proprietary Fund
For the Year Ended September 30, 2016

OPERATING REVENUES	
Charges for Services	\$ 1,767,691
Tap Connections & Inspections	771,593
Intergovernmental Revenue	362,343
Other Revenues	66,853
Total Operating Revenues	<u>2,968,480</u>
OPERATING EXPENSES	
Water Purchases	471,240
System & Equipment Maintenance	47,774
Salaries, Benefits & Payroll Taxes	498,594
Professional Fees	38,988
Utilities	20,374
Regulatory Assessments & Fees	13,522
Insurance	11,849
Contract Services	38,005
Equipment & Storage Rental	1,042
Directors Fees	9,550
Office Printing, Postage & Data Processing	71,491
Bank & Credit Card Charges	13,628
Dues, Subscriptions & Education	2,622
Depreciation	157,603
Total Operating Expenses	<u>1,396,282</u>
Operating Income	<u>1,572,198</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest Income	9,402
Insurance Proceeds (Net)	13,450
Interest Expense	(100,754)
Total Non-Operating Revenues/(Expenses)	<u>(77,902)</u>
Change in Net Position	1,494,296
Net Position - Beginning - As Restated	<u>2,934,915</u>
Net Position - Ending	<u><u>\$ 4,429,211</u></u>

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

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2016

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 2,608,087
Cash Received from Other Governments	33,125
Cash Paid to Employees	(498,594)
Cash Paid to Suppliers	(834,890)
Net Cash Provided/(Used) by Operating Activities	<u>1,307,728</u>
Cash Flows from Capital & Related Financing Activities:	
Purchase of Capital Assets	(517,884)
Principal Paid on Bonds Payable	(85,000)
Interest Paid on Capital Debt	(98,793)
Net Cash (Used)/Provided by Capital & Related Financing Activities	<u>(701,677)</u>
Cash Flows from Investing Activities:	
Interest Received	9,402
Sale/(Purchase) of Investments	(84)
Insurance Proceeds (Net)	13,450
Net Cash Provided/(Used) by Investing Activities	<u>22,768</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	628,819
Cash & Cash Equivalents - Beginning	<u>1,532,489</u>
Cash & Cash Equivalents - Ending	<u>\$ 2,161,308</u>

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

Operating Income	\$ 1,572,198
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	157,603
(Increase)/Decrease in Accounts Receivable	(19,900)
(Increase)/Decrease in Other Receivables	(329,218)
(Increase)/Decrease in Supplies Inventory	(61,261)
Increase/(Decrease) in Accounts Payable	(25,486)
Increase/(Decrease) in Accrued Expense	(8,058)
Increase/(Decrease) in Member Deposits	21,850
Net Cash Provided/(Used) by Operating Activities	<u>\$ 1,307,728</u>

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

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NOTES TO FINANCIAL STATEMENTS

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Notes to Financial Statements

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Wylie Northeast Special Utility 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 accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Wylie Northeast Water Supply Corporation was organized in 1964 by a group of local patrons, created for the purpose of providing water service to an area designated by the Texas Commission on Environmental Quality (TCEQ). On September 20, 2005, Wylie Northeast Water Supply Corporation converted to Wylie Northeast Special Utility District.

The District provides retail water services to its customers and participates in the North Texas Municipal Water District System.

The District has no component units nor is the District a component unit of another entity.

B. Government – Wide & Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by operating revenues. *Operating Expenses* are those that are clearly identifiable with a specific function or segment. *Operating Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Interest earnings and expense and other items not properly included among operating revenues and expense are reported instead as *Non-Operating Revenues and Expense*.

C. Measurement Focus, Basis of Accounting & Financial Statement Presentation

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

The District has no governmental funds.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Notes to Financial Statements

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting & Financial Statement Presentation
(continued)

The District reports the following proprietary fund:

The *Proprietary Fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District's proprietary fund is for water service.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities & Net Position or Equity

1. Deposits & Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. Other short-term investments are included in investments. Investments are stated at fair value.

2. Prepaid Items

Payments made to vendors for services that will benefit periods beyond year end are recorded as prepaid items.

3. Restricted Assets

Certain resources set aside for the repayment of principal and interest on long-term debt, are classified as restricted assets on the Statement of Net Position. These resources are maintained in separate bank accounts.

The district is required to accumulate the amount required to pay principal and interest due on the next payment due date.

The District is also required to accumulate, in no more than sixty months after issuance, money and investments in an aggregate amount at least equal to the average annual principal and interest requirements on the revenue bonds.

4. Inventories

Inventories consist primarily of supplies, valued at cost determined by first-in first-out method.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Notes to Financial Statements

September 30, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

D. Assets, Liabilities & Net Position or Equity *(continued)*

5. Capital Assets

Property and equipment is recorded at cost. The District capitalizes all assets with a cost greater than \$1,000 and life expectancy of at least three years. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis beginning when the asset is placed in service as follows:

<u>Class of Property</u>	<u>Estimated Lives</u>
Buildings & Improvements	10-39 years
Water Distribution System	10-50 years
Vehicles	5 years
Water Service Equipment	5-10 years
Office Equipment	3-10 years

6. Income Taxes

The District is exempt from Federal income taxes.

7. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service. Vacation is normally taken by December 31st of each year and not carried forward; therefore, no accrual has been made for unused vacation.

E. Estimates

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

(2) **STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY**

A. Budgetary Information

The annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year end. The budget for the next year is finalized and formally approved by the Board before the end of the preceding fiscal year.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Notes to Financial Statements

September 30, 2016

(3) DETAILED NOTES ON ALL FUNDS

A. Deposits & Investments

As of September 30, 2016, the District's bank balance was \$2,219,584. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held by the pledging financial institution's trust department or agent in the district's name. Below is a summary of the District's cash and investments as of September 30, 2016:

<u>Description</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>
Petty Cash	\$ 200	200	\$ -
Inwood National General Fund	626,261	626,261	-
2015 Bond I&S	21,636	-	21,636
2007 Bond I&S	29,046	-	29,046
WNE Loan Reserve Fund	192,325	-	192,325
Construction Fund #3	146,725	146,725	-
Wylie Northeast Special Utility	4,867	4,867	-
(R) Wylie Northeast Special	38,457	38,457	-
WNE INSP (Connection fees)	1,057,784	1,057,784	-
Inspiration (Builder Deposits)	44,007	44,007	-
	<u>2,161,308</u>	<u>1,918,301</u>	<u>\$ 243,007</u>
 <u>Investments</u>			
Certificate of Deposit	<u>21,216</u>		
Total Cash & Investments	<u>\$ 2,182,524</u>		

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

a. Credit Risk

This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The District is not exposed to credit risk since all of its investments are in U.S. Government securities.

b. Custodial Credit Risk – Deposits

In the case of deposits this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law; or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). The District is not exposed to custodial credit risk, as all of its deposits are covered by depository insurance or pledged securities.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Notes to Financial Statements

September 30, 2016

(3) DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits & Investments (continued)

c. Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The government investments are with the Texas Short Term Asset Reserve (TexSTAR). The pool is a public funds investment pool created to provide a safe environment for the placement of local government funds in authorized short-term investments. Local investment pools operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. The reported value of the pool is the same as the fair value of the pool shares. The Texas Comptroller of Public Accounts exercises oversight responsibility over TexSTAR. The government is not exposed to custodial credit risk for its investments.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years from the time of purchase.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. The District is not exposed to foreign currency risk.

f. Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The District is not exposed to concentration of credit risk.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Notes to Financial Statements

September 30, 2016

(3) DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

At September 30, 2016 there were \$220,322 in customer accounts receivable, with an allowance for doubtful accounts of \$5,000, and \$329,218 in intergovernmental receivables for capital project reimbursements.

C. Capital Assets

A summary of changes in capital assets follows:

	Balance 09/30/15	Additions	Retirements	Balance 09/30/16
Capital Assets Not Being Depreciated:				
Land	\$ 213,338	-	-	\$ 213,338
Construction in Progress	16,473	438,958	(455,431)	-
Total Capital Assets Not Being Depreciated	<u>229,811</u>	<u>438,958</u>	<u>(455,431)</u>	<u>213,338</u>
Capital Assets Being Depreciated:				
Buildings & Improvements	107,353	16,473	-	123,826
Equipment - Vehicles	124,865	34,281	-	159,146
Equipment - Maintenance	109,952	9,395	-	119,347
Equipment - Office	133,355	2,125	-	135,480
Water Distribution Assets	5,039,482	472,083	-	5,511,565
Total Capital Assets Being Depreciated	<u>5,515,007</u>	<u>534,357</u>	<u>-</u>	<u>6,049,364</u>
Less: Accumulated Depreciation	<u>(1,883,528)</u>	<u>(157,603)</u>	<u>-</u>	<u>(2,041,131)</u>
Total Capital Assets Being Depreciated - Net	<u>3,631,479</u>	<u>376,754</u>	<u>-</u>	<u>4,008,233</u>
Total Capital Assets - Net	<u>\$ 3,861,290</u>	<u>815,712</u>	<u>(455,431)</u>	<u>\$ 4,221,571</u>

D. Long - Term Debt

Long-term debt activity for the year ended September 30, 2016 was as follows:

	Balance 09/30/15	Additions	Retirements	Balance 09/30/16	Current Portion
Bonds Payable - Series 2007	\$ 1,705,000	-	(45,000)	1,660,000	\$ 50,000
Bonds Payable - Series 2015	731,000	-	(40,000)	691,000	41,000
	<u>\$ 2,436,000</u>	<u>-</u>	<u>(85,000)</u>	<u>2,351,000</u>	<u>\$ 91,000</u>

On February 15, 2015, the District issued Series 2015 tax exempt revenue bonds with a par amount of \$755,000 and interest rate of 2.79%. Interest payments are made semi-annually on February 15 and August 15, and principal payments are made annually on August 15. After paying issuance costs, the proceeds were used to pay off an existing loan with the Texas Water Development Board.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Notes to Financial Statements

September 30, 2016

(3) DETAILED NOTES ON ALL FUNDS (continued)

D. Long – Term Debt (continued)

Bond debt service requirements to maturity are as follows:

Fiscal Year End September 30	Principal	Interest	Total
2017	\$ 91,000	96,939	\$ 187,939
2018	92,000	93,795	185,795
2019	98,000	90,623	188,623
2020	100,000	87,224	187,224
2021	106,000	83,768	189,768
2022-2026	579,000	360,277	939,277
2027-2031	640,000	241,181	881,181
2032-2036	525,000	111,250	636,250
2037	120,000	6,000	126,000
	<u>\$ 2,351,000</u>	<u>\$ 1,171,057</u>	<u>\$ 3,522,057</u>

E. Operating Leases

On January 17, 2013, the District executed a 48-month lease for a postage machine. The lease calls for quarterly payments of \$219.

Future minimum lease payments are as follows:

Fiscal Year End September 30	
2017	\$ 219
	<u>\$ 219</u>

(4) RETIREMENT PLAN

In June of 2007, the District established a Government Eligible 457 retirement plan for its eligible employees. To be eligible, an employee must be full-time and employed by the District for six months. Participants can make salary reduction contributions; they may also make catch-up contributions if over 50 years of age. The District will make matching contributions equal to 4 percent of each participant’s salary reduction contribution. Participants are 100 percent vested in both salary reduction contributions and the District’s matching contributions. In May of 2016 the 457 retirement plan was terminated and the District began participating in the Texas County and District Retirement System (TCDRS).

TCDRS

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 618 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Notes to Financial Statements

September 30, 2016

(4) RETIREMENT PLAN (continued)

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits are adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 4% for calendar year 2016. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

(5) EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through February 7, 2017, the date which the financial statements were available to be issued.

(6) RESTATEMENT OF NET POSITION

During the fiscal year audit, it was noted that the District had incorrectly assessed the value of inventory as it pertained to the September 30, 2015 fiscal year. As such, the net position, as of September 30, 2015, has been restated to reflect this change.

Net Position - As Originally Reported	2,873,654
Increase in Inventory	61,261
Fund Balance - Restated	<u>2,934,915</u>

REQUIRED SUPPLEMENTARY INFORMATION

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
Budget and Actual - Proprietary Fund
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
OPERATING REVENUES:				
Charges for Services	\$ 1,694,000	1,698,000	1,767,691	69,691
Tap Connections & Inspections	504,000	725,500	771,593	46,093
Intergovernmental Revenue	-	-	362,343	362,343
Other Revenues	54,000	58,500	66,853	8,353
Total Operating Revenues	<u>2,252,000</u>	<u>2,482,000</u>	<u>2,968,480</u>	<u>486,480</u>
OPERATING EXPENSES:				
Water Purchases	462,000	462,000	471,240	(9,240)
System & Equipment Maintenance	135,000	140,000	47,774	92,226
Salaries, Benefits & Payroll Taxes	474,600	471,600	498,594	(26,994)
Professional Fees	57,000	49,000	38,988	10,012
Utilities	25,000	25,000	20,374	4,626
Regulatory Assessments & Fees	15,000	15,000	13,522	1,478
Insurance	15,000	15,000	11,849	3,151
Election Cost	4,000	100	-	100
Contract Services	30,500	30,500	38,005	(7,505)
Equipment Storage & Rental	1,300	1,300	1,042	258
Directors Fees	10,000	10,000	9,550	450
Office, Printing & Postage	74,500	80,000	71,491	8,509
Bank & Credit Card Charges	12,000	12,000	13,628	(1,628)
Bad Debts	5,000	5,000	-	5,000
Dues, Subscriptions & Education	4,500	4,500	2,622	1,878
Depreciation	150,000	150,000	157,603	(7,603)
Total Operating Expenses	<u>1,475,400</u>	<u>1,471,000</u>	<u>1,396,282</u>	<u>74,718</u>
Operating Income/(Loss)	<u>776,600</u>	<u>1,011,000</u>	<u>1,572,198</u>	<u>561,198</u>
NON-OPERATING REVENUES/ (EXPENSES):				
Interest Income	-	-	9,402	9,402
Insurance Proceeds (Net)	-	-	13,450	13,450
Interest Expense	110,000	110,000	(100,754)	(210,754)
Total Non-Operating Revenues/ (Expenses)	<u>110,000</u>	<u>110,000</u>	<u>(77,902)</u>	<u>(187,902)</u>
Change in Net Position	886,600	1,121,000	1,494,296	373,296
Net Position - Beginning - As Restated	<u>2,934,915</u>	<u>2,934,915</u>	<u>2,934,915</u>	<u>-</u>
Net Position - Ending	<u>\$ 3,821,515</u>	<u>4,055,915</u>	<u>4,429,211</u>	<u>373,296</u>

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

TEXAS SUPPLEMENTARY INFORMATION

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Schedule of Services and Rates
Year Ended September 30, 2015

1. *Services provided by the District during the fiscal year:*

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

2. *Retail Service Connections*

a. Retail rates for a 5/8" meter (or equivalent):

Rate per 1,000 Gallons	Usage Levels
\$ 5.73	- to 5,000
6.47	5,001 to 10,000
7.34	10,001 to 15,000
8.15	15,001 to 20,000
\$ 8.95	20,001 & Over

Does the District employ winter averaging for wastewater usage? Yes No

Total Charges per 10,000 gallons usage: Water \$90.00 Wastewater \$53.00

Basic water service \$29.00 per meter, sewer \$36.00

b. Water Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>
≤ 3/4"	<u>1777</u>	<u>1769</u>	1.0
1"	<u>17</u>	<u>17</u>	2.5
1 1/2"	<u>4</u>	<u>4</u>	5.0
2"	<u>21</u>	<u>21</u>	8.0
3"	<u>3</u>	<u>3</u>	15.0
4"	<u>1</u>	<u>1</u>	25.0
6"	<u>0</u>	<u>0</u>	50.0
8"	<u>2</u>	<u>2</u>	80.0
10"	<u>0</u>	<u>0</u>	115.0
Total Water	<u>1582</u>	<u>1549</u>	
Total Wastewater	<u>236</u>	<u>236</u>	

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

Schedule of Services and Rates

Year Ended December 31, 2015

(continued)

3. *Total water consumption during the fiscal year (rounded to the nearest thousand):*

Gallons pumped into system:	<u>208,789,000</u>
Gallons billed to customers:	<u>162,900,689</u>
Water Accountability Ratio: (Gallons Billed/Gallons Pumped)	<u>78.02%</u>

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

Does the District have debt service standby fees? Yes No

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

Does the District have Operation & Maintenance standby fees? Yes No

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

5. *Location of District:*

County in which District is located: Collin

Is the District located entirely within one county? Yes No

Is the District located within a city? Yes Partly No

City(ies) in which the District is located: St. Paul, Wylie, Lucas, Parker

Is the District located within a city's extra territorial jurisdiction (ETJ) Yes Partly No

ETJ's in which the District is located: St. Paul, Wylie, Lucas, Parker

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

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Schedule of Proprietary Fund Expenses
For the Year Ended September 30, 2016

Professional Fees:	\$ 38,988
Water Purchases	471,240
Contract Services	38,005
Insurance	11,849
Utilities	20,374
Repairs & Maintenance	47,774
Personnel Cost	498,594
Other Operating Costs	111,855
Interest	100,754
Depreciation & Amortization	<u>157,603</u>
Total Operating Expenses	<u><u>\$ 1,497,036</u></u>

Number of persons employed by the District 8 Full-Time 0 Part-Time
(Does not include independent contractors or consultants)

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Comparative Statement of Activities
Proprietary Fund
Five Fiscal Periods Ended September 30, 2016

	Amounts				
	2016	2015	2014	2013	2012
Operating Revenues					
Water Sales	\$ 1,767,691	1,566,628	1,261,610	1,262,434	1,150,863
Tap Fees & Inspections	771,593	494,120	126,562	119,967	65,761
Other Revenues	429,196	81,140	57,187	52,294	56,278
Total Operating Revenues	<u>2,968,480</u>	<u>2,141,888</u>	<u>1,445,359</u>	<u>1,434,695</u>	<u>1,272,902</u>
Operating Expenses					
Water Purchases	471,240	399,681	362,934	332,642	296,391
System Maintenance	47,774	126,057	93,919	64,532	50,174
Salaries, Benefits & Taxes	498,594	428,430	454,386	434,338	411,340
Professional Fees	38,988	86,412	31,310	35,505	31,558
Utilities	20,374	22,529	33,214	33,076	30,419
Regulatory Assessment Fees	13,522	11,220	11,916	9,967	9,506
Insurance	11,849	11,963	12,453	12,549	10,401
Contract Services	38,005	29,719	11,973	1,437	1,163
Office & Data Processing	71,491	61,545	45,396	50,174	42,975
Other	26,842	28,132	34,220	32,833	45,130
Depreciation	157,603	149,661	144,811	148,625	143,336
Total Operating Expenses	<u>1,396,282</u>	<u>1,355,349</u>	<u>1,236,532</u>	<u>1,155,678</u>	<u>1,072,393</u>
Operating Income/(Loss)	<u>1,572,198</u>	<u>786,539</u>	<u>208,827</u>	<u>279,017</u>	<u>200,509</u>
Non-Operating Revenues/(Expenses)					
Interest Income	9,402	1,457	1,082	1,382	2,033
Insurance Proceeds (Net)	13,450	-	-	-	-
Interest Expense	(100,754)	(110,519)	(123,650)	(126,307)	(128,734)
Total Non-Operating Revenues/(Expenses)	<u>(77,902)</u>	<u>(109,062)</u>	<u>(122,568)</u>	<u>(124,925)</u>	<u>(126,701)</u>
Net Income/(Loss)	<u>1,494,296</u>	<u>677,477</u>	<u>86,259</u>	<u>154,092</u>	<u>73,808</u>

Percent of Total Revenues

2016	2015	2014	2013	2012
59.55	73.14	87.29	87.99	90.41
25.99	23.07	8.76	8.36	5.17
14.46	3.79	3.96	3.64	4.42
<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
15.87	18.66	25.11	23.19	23.28
1.61	5.89	6.50	4.50	3.94
16.80	20.00	31.44	30.27	32.32
1.31	4.03	2.17	2.47	2.48
0.69	1.05	2.30	2.31	2.39
0.46	0.52	0.82	0.69	0.75
0.40	0.56	0.86	0.87	0.82
1.28	1.39	0.83	0.10	0.09
2.41	2.87	3.14	3.50	3.38
0.90	1.31	2.37	2.29	3.55
5.31	6.99	10.02	10.36	11.26
<u>47.04</u>	<u>63.28</u>	<u>85.55</u>	<u>80.55</u>	<u>84.25</u>
<u>52.96</u>	<u>36.72</u>	<u>14.45</u>	<u>19.45</u>	<u>15.75</u>
0.32	0.07	0.07	0.10	0.16
0.45	0.00	0.00	0.00	0.00
<u>(3.39)</u>	<u>(5.16)</u>	<u>(8.55)</u>	<u>(8.80)</u>	<u>(10.11)</u>
<u>(2.62)</u>	<u>(5.09)</u>	<u>(8.48)</u>	<u>(8.71)</u>	<u>(9.95)</u>
<u><u>50.34</u></u>	<u><u>31.63</u></u>	<u><u>5.97</u></u>	<u><u>10.74</u></u>	<u><u>5.80</u></u>

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Temporary Investments
September 30, 2016

Description	Acct #	Interest Rate	Maturity Date	Balance 09/30/16
Reserve Money Market	600204321	0.2%	NA	\$ 21,636
Reserve Money Market	6069658	0.2%	NA	29,046
Special Money Market	6069543	0.2%	NA	192,325
Building Money Market	6071272	0.2%	NA	146,725
			Total	<u>\$ 389,732</u>
 Building Fund CD	 18444	 0.55%		 \$ 21,216

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Change in Long Term Bonded Debt
September 30, 2016

	<u>Series 2007</u>	<u>Series 2015</u>
Beginning Bonds Outstanding	\$ 1,705,000	\$ 731,000
Bonds issued during the year	-	-
Bonds retired during the year	(45,000)	(40,000)
Ending Outstanding Balance at 9/30/16	<u><u>\$ 1,660,000</u></u>	<u><u>\$ 691,000</u></u>
 Interest Rates	 4.00% - 5.00%	 2.79%
Maturity Dates	8/15/2037	8/15/2030

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Long Term Debt Service Requirements
September 30, 2016

<u>Fiscal Year End</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 91,000	\$ 96,939	\$ 187,939
2018	92,000	93,795	185,795
2019	98,000	90,623	188,623
2020	100,000	87,224	187,224
2021	106,000	83,768	189,768
2022	107,000	80,085	187,085
2023	113,000	76,253	189,253
2024	115,000	72,184	187,184
2025	121,000	68,059	189,059
2026	123,000	63,696	186,696
2027	129,000	59,278	188,278
2028	135,000	54,021	189,021
2029	142,000	48,486	190,486
2030	144,000	42,646	186,646
2031	90,000	36,750	126,750
2032	95,000	32,250	127,250
2033	100,000	27,500	127,500
2034	105,000	22,500	127,500
2035	110,000	17,250	127,250
2036	115,000	11,750	126,750
2037	120,000	6,000	126,000
	<u>\$ 2,351,000</u>	<u>\$ 1,171,057</u>	<u>\$ 3,522,057</u>

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Board Members, Key Personnel and Consultants
September 30, 2016

Wylie Northeast Special Utility District
 745 Parker Rd.
 Wylie, TX 75098
 Telephone Number: (972) 442-2075

<u>Name & Address</u>	<u>Terms of Office Elected & Expires</u>	<u>Fees Paid 09/30/16</u>	<u>Title at Year-End</u>
<u>Board Members:</u>			
Jimmy Beach 3794 CR 1089 Celeste, TX 75423	Elected 2013-2016	\$ 3,200	President
Clinton Davis 1712 Skyview Dr. Wylie, TX 75098	Elected 2015-2018	\$ 1,600	Vice President
Brenda Kellow 2348 St. Paul Rd. St. Paul, TX 75098	Elected 2014-2017	\$ 1,600	Secretary
Greg Lutz 7206 CR 544 Nevada, TX 75098	Elected 2014-2017	\$ 1,600	Director
Lance Ainsworth 2028 Megan Court Wylie, TX 75098	Elected 2015-2018	\$ 1,600	Director

WYLIE NORTHEAST SPECIAL UTILITY DISTRICT
Board Members, Key Personnel and Consultants
September 30, 2016
continued

<u>Name & Address</u>	<u>Date Hired</u>	<u>Fees Paid 09/30/16</u>	<u>Title</u>
<u>Key Administrative Personnel</u>			
Chester W. Adams 508 Houston Wolfe City, TX 75496	8/2/2010	\$ 85,047	General Manager
<u>Consultants</u>			
James Wilson Rapier & Wilson, P.C. 103 W. McDermott Allen, TX 75013		\$ 24,150	Attorney
Eddy Daniel P.O. Box 606 Farmersville, TX 75442		\$ 2,675	Engineer
Evans Pingleton & Howard, PLLC 8950 Gary Burns, Suite D Frisco, TX 75034		\$ 8,500	Auditor

EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

8950 Gary Burns Drive, Suite D

Frisco, Texas 75034

PH 972-335-9754

FAX 972-335-9758

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

To the Board of Directors

Wylie Northeast Special Utility District

Wylie, TX

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 governmental activities and the business-type activities of the Wylie Northeast Special Utility District, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Wylie Northeast Special Utility District's basic financial statements, and have issued our report thereon dated February 7, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Evans, Pingleton and Howard, PLLC

Frisco, TX
February 7, 2017