

ROSE HILL
SPECIAL UTILITY DISTRICT
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2022

MURREY PASCHALL & CAPERTON, PC
Certified Public Accountants

Rose Hill Special Utility District
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December 31, 2022

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ANNUAL FILING AFFIDAVIT

STATE OF TEXAS COUNTY OF KAUFMAN

I, Randy Reznicek of the
(Name of Duly Authorized District Representative)

ROSE HILL SPECIAL UTILITY DISTRICT

(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of the Directors of the District on the 28th day of FEBRUARY its annual audit report for the fiscal year or period ended DECEMBER 31, 2022 and those copies of the annual audit report have been filed in the district office, located at:

1377 CR 274, TERRELL, TEXAS 75160

(Address of District)

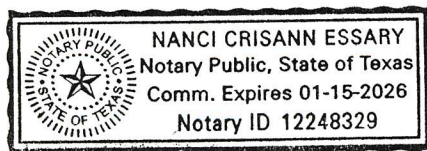
The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: FEBRUARY 28, 2023 By: Randy Reznicek
(Signature of District Representative)

Randy Reznicek, President
(Typed Name & Title of above District Representative)

Sworn to and Subscribed to before me by this 28th day of FEBRUARY 2023
(SEAL)

Nanci Crisann Essary
(Signature of Notary)



My Commission Expires On: 01-15-2026
Notary Public in the State of Texas.

M **Murrey Paschall & Caperton PC**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rose Hill Special Utility District
Terrell, Texas

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINIONS

We have audited the accompanying financial statements of the business-type activities of the Rose Hill Special Utility District (District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Rose Hill Special Utility District, as of December 31, 2022, 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.

BASIS FOR OPINIONS

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Rose Hill Special Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rose Hill Special Utility District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Rose Hill Special Utility District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rose Hill Special Utility District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

REQUIRED SUPPLEMENTARY INFORMATION

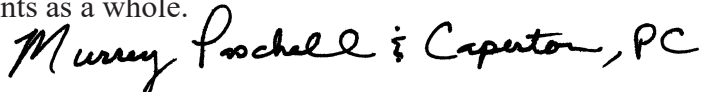
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-9 and 21 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information (TSI) schedules on pages 23-30 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These schedules 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 TSI schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Murrey Paschall & Caperton, PC". The signature is written in a cursive, flowing style.

Murrey, Paschall & Caperton, P.C.

Certified Public Accountants

Forney, Texas

February 11, 2023

Rose Hill Special Utility District
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

Schedule
Reference
Number

Findings

(None noted)

Rose Hill Special Utility District
Corrective Actions Planned
For the Year Ended December 31, 2022

Schedule
Reference
Number

Actions Planned

(None)

Rose Hill Special Utility District
Management's Discussion and Analysis
December 31, 2022

This section of Rose Hill Special Utility District's (District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2022. Please read it in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded its liabilities by \$6,867,138 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$5,574,100. Of the \$6,867,138 in net assets, \$2,856,239 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers and creditors.
- During the year, the District's operating revenues of \$1,896,674 generated from charges for services, customer charges and fees and investments for business-type activities exceeded expenses by \$201,299. Non-Operating gains/losses led to a total Change in Net Assets of \$1,293,038.

OVERVIEW OF THE FINANCIAL STATEMENTS

Three components of the District's annual financial report include: 1) management's discussion and analysis, 2) the basic financial statements, and 3) other supplementary information.

District-wide financial statements

The District's annual report includes two district-wide financial statements.

The first of these financial statements is the *Statement of Net Assets*. This is a statement of financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as *net assets*. Over time, the increases or decreases of net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

The second financial statement is the *Statement of Activities and Changes in Net Assets*, which reports how the District's net assets changed during the current fiscal year. All current year revenue and expenses are included regardless of when cash is received or paid.

Both financial statements distinguish the functions of the District that are principally supported by functions that collect user fees and charges (business-type activities) used to recover all or a significant portion of their costs. The District's utility operations are the only business-type activities.

Utility Funds are reported in the fund financial statements and generally reports services for which the District charges customers a fee. The District maintains one utility fund.

Notes to Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the District as a whole.

The District's net assets at fiscal year-end are \$6,867,138. Of this amount, 58.41% reflects its investments in capital assets such as land, buildings, distribution system, improvements, machinery and equipment and construction in progress, less any debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to customers and are therefore not available for future spending. Please note, however, that even though the investments in capital assets are reported net of their related debt, that the capital assets themselves cannot be used to liquidate this debt, those resources must be provided from other sources. The following table provides a summary of the District's net assets at December 31:

SUMMARY OF NET ASSETS

Assets:	Business-Type Activities	
	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 2,687,461	\$ 1,553,720
Other Current Assets	218,060	163,664
Non-Current Assets, net	<u>4,336,715</u>	<u>4,201,828</u>
Total assets	<u>\$ 7,242,236</u>	<u>\$ 5,919,212</u>
Liabilities:		
Current Liabilities	\$ 45,611	\$ 30,925
Long-term Liabilities	<u>329,487</u>	<u>314,187</u>
Total Liabilities	<u>375,098</u>	<u>345,112</u>
Net assets:		
Invested in capital assets, net of related debt	4,010,899	4,194,187
Unrestricted	<u>2,856,239</u>	<u>1,379,913</u>
Total net assets	<u>6,867,138</u>	<u>5,574,100</u>
Total Liabilities and Net Assets	<u>\$ 7,242,236</u>	<u>\$ 5,919,212</u>

ANALYSIS OF THE DISTRICT'S OPERATIONS

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the District's changes in net assets for the year ended December 31, 2022. Business-type activities increased the District's net assets by \$1,293,038.

SUMMARY OF CHANGES IN NET ASSETS

	2022	2021
OPERATING REVENUES:		
Water sales	\$ 1,738,217	\$ 1,530,825
Customer charges/fees	<u>158,457</u>	<u>154,282</u>
Total operating revenues	<u>1,896,674</u>	<u>1,685,107</u>
OPERATING EXPENSES:		
Payroll and benefits	339,542	281,964
Water purchased	458,184	550,378
Repairs and maintenance	173,529	145,533
Supplies & analysis	15,503	22,124
Professional and legal fees	299,336	143,326
Insurance	14,350	14,050
Other operating costs	169,749	139,774
Depreciation and amortization	<u>225,182</u>	<u>247,771</u>
Total operating expenses	<u>1,695,375</u>	<u>1,544,920</u>
Net operating revenue (expenses)	<u>201,299</u>	<u>140,187</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	425	1,900
Interest expense	-	(714)
Developer Contributed Assets	186,545	-
Gain (Loss) on disposal of assets	<u>904,769</u>	<u>(82,829)</u>
Total nonoperating revenue (expenses):	<u>1,091,739</u>	<u>(81,643)</u>
NET REVENUES (EXPENSES)	<u>1,293,038</u>	<u>58,544</u>
NET POSITION - BEGINNING	<u>5,574,100</u>	<u>5,515,556</u>
NET POSITION - ENDING	<u>\$ 6,867,138</u>	<u>\$ 5,574,100</u>

CAPITAL ASSETS

The District's investment in capital assets for its business-type activities, net of depreciation and related debt, as of December 31, 2022 is \$4,010,899. These include land, buildings, improvements, infrastructure, machinery and equipment.

	<u>2022</u>	<u>2021</u>
Land	\$ 189,813	\$ 159,323
Water Distribution System	6,200,548	6,582,056
Buildings	40,294	23,928
Vehicles	120,148	120,148
Machinery and Equipment	<u>267,323</u>	<u>241,215</u>
Total at Historical Cost	6,818,126	7,126,670
Total Accumulated		
Depreciation	<u>2,807,227</u>	<u>2,932,483</u>
Net Capital Assets	<u>\$ 4,010,899</u>	<u>\$ 4,194,187</u>

Capital assets are comprised of the various long-term assets through which the District receives, treats, and distributes the water to the residents and businesses of the area. Capital assets are depreciated over the estimated useful life of the assets and the District charges this depreciation as an operating expense. The District recognized \$223,272 of depreciation expense in 2022 compared to the prior year when depreciation was \$245,861. Capital asset items sold or deemed obsolete and any related accumulated depreciation are removed from the capital asset listing each year.

ECONOMIC ENVIRONMENT AND NEXT YEAR'S BUDGETS AND RATES

At this time, Rose Hill Special Utility District is not aware of any decisions or conditions that would impact the District's operations through 2023.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Rose Hill Special Utility District
Statement of Net Assets
Utility Fund
December 31, 2022

	Business-type Activities-Enterprise (Utility Fund)
<hr/>	
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,687,461
Accounts receivable (net)	133,915
Inventory field supplies	79,430
Prepaid and other assets	4,715
Total current assets	<hr/> 2,905,521 <hr/>
Non-current assets	
SUD conversion cost (net)	325,816
Capital assets (net)	4,010,899
Total non-current assets	<hr/> 4,336,715 <hr/>
TOTAL ASSETS	<hr/> \$ 7,242,236 <hr/>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 21,073
Accrued expenses	6,932
Assessments collected and payable	17,606
Total current liabilities	<hr/> 45,611 <hr/>
Non-current liabilities:	
Customer deposits payable	329,487
Total non-current liabilities	<hr/> 329,487 <hr/>
TOTAL LIABILITIES	<hr/> 375,098 <hr/>
NET ASSETS	
Invested in capital assets, net of related debt	4,010,899
Unrestricted	2,856,239
TOTAL NET ASSETS	<hr/> 6,867,138 <hr/>
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 7,242,236 <hr/>

The accompanying notes are an integral part of the financial statements.

Rose Hill Special Utility District
Statement of Activities and Changes in Net Assets
Utility Fund
For the Year Ended December 31, 2022

	Business-type Activities-Enterprise (Utility Fund)
OPERATING REVENUES:	
Water sales	\$ 1,738,217
Customer charges/fees	158,457
Total operating revenues	<u>1,896,674</u>
OPERATING EXPENSES:	
Payroll and benefits	339,542
Water purchased	458,184
Repairs and maintenance	173,529
Supplies & analysis	15,503
Professional and legal fees	299,336
Insurance	14,350
Other operating costs	169,749
Depreciation and amortization	225,182
Total operating expenses	<u>1,695,375</u>
Net operating revenue (expenses)	<u>201,299</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	425
Interest expense	-
Developer Contributed Assets	186,545
Gain (Loss) on disposal of assets	904,769
Total nonoperating revenue (expenses):	<u>1,091,739</u>
CHANGE IN NET ASSETS:	1,293,038
TOTAL NET ASSETS - BEGINNING	<u>5,574,100</u>
TOTAL NET ASSETS - ENDING	<u><u>\$ 6,867,138</u></u>

The accompanying notes are an integral part of the financial statements.

Rose Hill Special Utility District
Statement of Cash Flows
Utility Fund
For the Year Ended December 31, 2022

	Business-type Activities-Enterprise (Utility Fund)
Cash flows from operating activities:	
Receipts from customers and users	\$ 1,882,347
Payments to suppliers	(1,156,034)
Payments to employees	(339,542)
Net cash provided (used) by operating activities	<u>386,771</u>
Cash flows from noncapital financing activities:	
Cash provided (used) by noncapital financing activities	<u>15,300</u>
Net cash provided (used) by noncapital financing activities	<u>15,300</u>
Cash flows from capital and related financing activities:	
Principal paid on loans payable	-
Interest paid on loans payable	-
Cash received for capital asset disposals	1,250,000
Acquisition and construction of capital assets	(518,755)
Net cash provided (used) by capital and related financing activities	<u>731,245</u>
Cash flows from investing activities:	
Interest received	<u>425</u>
Net cash provided (used) by investing activities	<u>425</u>
Net increase (decrease) in cash and cash equivalents	1,133,741
Cash and cash equivalents at beginning of year	<u>1,553,720</u>
Cash and cash equivalents at end of year	<u>\$ 2,687,461</u>

The accompanying notes are an integral part of the financial statements.

Rose Hill Special Utility District
Statement of Cash Flows - continued
Utility Fund
For the Year Ended December 31, 2022

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ 201,299
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	225,182
Change in assets and liabilities	
(Increase) decrease in accounts receivable	(14,327)
(Increase) decrease in inventory field supplies	(39,758)
(Increase) decrease in prepaid and other assets	(311)
Increase (decrease) in accounts payable	13,823
Increase (decrease) in accrued expenses	863
Total adjustments	<u>185,472</u>
Net cash provided by operating activities	<u><u>\$ 386,771</u></u>

The accompanying notes are an integral part of the financial statements.

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rose Hill Special Utility District (District) was approved by the voters within the District on September 20, 2005. The Rose Hill 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. Significant accounting principles of the District follow.

Reporting Entity

The Board of Directors (Board), a five 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 Rose Hill 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The proprietary financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are both measurable and available. Revenues are considered available within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if collected within sixty days after the current fiscal period. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. However, materials and supplies inventories are not considered expenditures until they are consumed. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the statement of net assets.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges for customers for sales or services and fees charged with the intention

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2022

of recovering costs associated with connecting new customers. Principal operating expenses are the costs of providing the water services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting these criteria are reported as general revenues and expenses.

Budget

The Board adopts an annual budget for the Utility Fund. It is prepared by the general manager of the District and adopted under a basis that is consistent with generally accepted accounting principles. Board approval is required for amendments, if any.

Other Significant Accounting Policies

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers cash on hand, demand deposits and all highly liquid investments with a maturity of three months or less from the acquisition date to be cash and cash equivalents.

Receivables – Accounts receivable as presented in the statement of net assets reflect the amounts that management expects to collect from its customers net of allowance for uncollectible accounts. Based on collection history, management does not believe an allowance for loss is necessary.

Inventory supplies and prepaid items – 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.

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 \$ 1,910. The amount recorded as an asset (net of amortization) in the basic financial statements at year end totaled \$5,731.

Capital Assets - The District’s capital assets include buildings, property and equipment, vehicles, improvements and distribution system. Additions are recorded at cost or, if contributed property, at its estimated fair value at the time of contribution. Repairs and maintenance are directly expensed in the period incurred; renewals and significant improvements are capitalized and depreciated. Sales or dispositions of capital assets are recorded by removing the historical cost and related accumulated depreciation from the statement of net assets and any resulting gain or loss recorded as appropriate to non-operating income or expense.

Outlays for major (normally over \$5,000) capital asset additions and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2022

business-type activities is included as part of the capitalized value of the constructed assets less any interest earned on the invested proceeds over the same period.

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

<u>Assets</u>	<u>Years</u>
Furniture and Fixtures	5-10
Vehicles	5-10
Land Improvements	5-10
Equipment	7-10
Buildings	30
Distribution System	15-40

Depreciation expense for the year ended December 31, 2022 was \$223,272.

Impairment of Long-lived Assets – The District reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of December 31, 2022, no impairment of long-lived assets is necessary.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reporting amounts and disclosures. Accordingly, actual results could vary from those estimates.

Retirement Plan – The District participates in a Simple IRA plan administered by Capital Group 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 as determined by the Board annually, or the limit set by the Internal Revenue Service, whichever is less. To be eligible to participate employees must be employed full time for three months and all matching contributions vest immediately. The District's matching contributions to the Simple IRA plan during the fiscal year totaled approximately \$5,357.

Compensated Absences - District employees are entitled to certain compensated absences based on their length of employment.

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2022

NOTE 2 – CAPITAL ASSETS

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

Business-Type Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land	\$ 159,323	\$ 30,490	\$ -	\$ 189,813
Water Distribution System	6,582,056	312,250	(693,759)	6,200,548
Buildings	23,928	16,366	-	40,294
Vehicles	120,148	-	-	120,148
Machinery and Equipment	<u>241,215</u>	<u>26,107</u>	<u>-</u>	<u>267,323</u>
Total capital assets at historical cost	7,126,670	385,213	(693,759)	6,818,126
Less accumulated depreciation for:				
Total accumulated depreciation	<u>2,932,483</u>	<u>223,272</u>	<u>(348,528)</u>	<u>2,807,227</u>
Business-type activities capital assets, net	<u>\$ 4,194,187</u>	<u>\$ 161,941</u>	<u>\$ (345,231)</u>	<u>\$ 4,010,899</u>

**Significant additions (Office remodel new floors, BigTex trailer, security cameras, fire hydrants, new tank motor, 400k tank refurbished, multiple land easements, and the Oak Point Estates – Phase 1 Developer Contributed Infrastructure).*

***Significant disposal (In January of 2022, Rose Hill SUD sold their ownership interest in the Kaufman 4-1 Joint Venture along with their share of any related water infrastructure to the City of Crandall and Gastonia-Scurry SUD. Total funds received \$1,250,000).*

****Construction in Progress (Other Long-term Assets not included in the table above) – Monoclor Chemical treatment system expected to be completed in 2023.*

NOTE 3 - DEPOSITS, SECURITIES AND INVESTMENTS

The District's funds appear to be deposited and invested under the loan agreement with the financial institution. The agreement 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, 2022, it appears that District's 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 states or agencies 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 TX, or
- f. fully collateralized repurchase agreements.

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2022

District investments include deposits in money market accounts at the local depository. All money market accounts are reported at share price (fair value) and are presented as cash and cash equivalents. As of December 31, 2022, Money Market Accounts rated AAAM valued \$2,659,601.

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

- **Credit Risk**
Credit risk is related to the risk that an issuer or other party 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 December 31, 2022, the District was not significantly exposed to credit risk.
- **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 credit 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 December 31, 2022, the District was not exposed to custodial credit risk.
- **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 December 31, 2022, the District was not exposed to concentrations of credit risk.
- **Interest Rate Risk**
This is the risk that changing interest rates will have an adverse effect on the fair value of an investment. At December 31, 2022, the District was not significantly exposed to interest rate risk.
- **Foreign Currency Risk**
This is the risk that is associated with exchange rates and the possibility that they will adversely affect the fair value of an investment. At December 31, 2022, the District was not exposed to foreign currency risk.

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2022

NOTE 5 – OTHER INFORMATION

A. Risk management

At any given time, the District is exposed to risks of loss related to torts; theft of, physical damage to, or destruction of its assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance coverage in an amount that management believes is sufficient to cover these risks is maintained.

B. Commitments

The District has a contract with the North Texas Municipal Water District in which the District purchases water for distribution to its customers. The agreement notes that each year new purchase rates are provided by NTMWD. As of December 2022, the monthly rate was \$51,846**.

**As previously discussed, in January 2022, the District sold its ownership interest in the Kaufman 4-1 Joint Venture as the City of Crandall and Gastonia-Scurry SUD were in need of additional water capacity. As such, each month beginning in February 2022, both Crandall and Gastonia-Scurry SUD reimbursed Rose Hill for their portion of the monthly NTMWD invoice. Therefore, of the December 2022 monthly total invoice of \$51,846, Rose Hill is receiving \$10,775 in reimbursements.

C. Customer Deposits

Each new customer of the District is required to pay \$275 (or \$400 for renters), representing a refundable deposit to secure payment of the customer's water bill. At December 31, 2022, the District was obliged to its customers in the amount of \$329,487.

D. Litigation

The District does not appear to be involved in any litigation that would require a loss contingency to be recorded as of December 31, 2022.

NOTE 6 – SUBSEQUENT EVENTS

Rose Hill Special Utility District has evaluated subsequent events through February 11, 2023, the date which 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.

REQUIRED SUPPLEMENTARY INFORMATION

Rose Hill Special Utility District
Budgetary Comparison Schedule
Utility Fund
For the Year Ended December 31, 2022

	Final Budget	Actual	Variance
Operating revenues:			
Water sales	\$ 1,524,000	\$ 1,738,217	\$ 214,217
Customer charges/fees	<u>134,100</u>	<u>158,457</u>	<u>24,357</u>
Total operating revenues	<u>1,658,100</u>	<u>1,896,674</u>	<u>238,574</u>
Operating expenses:			
Payroll and benefits	283,620	339,542	(55,922)
Water purchased	552,000	458,184	93,816
Repairs and maintenance	180,600	173,529	7,071
Supplies & analysis	16,800	15,503	1,297
Professional and legal fees	205,000	299,336	(94,336)
Insurance	15,000	14,350	650
Other operating costs	138,360	169,749	(31,389)
Depreciation and amortization	<u>241,920</u>	<u>225,182</u>	<u>16,738</u>
Total operating expenses	<u>1,633,300</u>	<u>1,695,375</u>	<u>(62,075)</u>
Non-operating revenue (expenses):			
Interest income	-	425	425
Interest expense	-	-	-
Developer Contributed Assets	-	186,545	186,545
Gain (Loss) on disposal of assets	<u>-</u>	<u>904,769</u>	<u>904,769</u>
Total nonoperating revenue (expenses):	<u>-</u>	<u>1,091,739</u>	<u>1,091,739</u>
Change in net assets	24,800	1,293,038	1,268,238
Total net assets-beginning	<u>5,574,100</u>	<u>5,574,100</u>	<u>-</u>
Total net assets-ending	<u>\$ 5,598,900</u>	<u>\$ 6,867,138</u>	<u>\$ 1,268,238</u>
Supplemental Information			
Exclude non-cash depreciation:	241,920	225,182	16,738
Capital purchases	(300,000)	(518,755)	(218,755)
Exclude non-cash nonoperating revenue	<u>-</u>	<u>158,686</u>	<u>158,686</u>
Cash budget changes:	<u>(33,280)</u>	<u>1,158,151</u>	<u>1,224,907</u>

See independent auditor's report.

TEXAS SUPPLEMENTARY INFORMATION (TSI)
(Other Supplementary Information)

Rose Hill Special Utility District
Services and Rates
December 31, 2022

1. Services provided by the District:

☒ Retail Water ☐ Wholesale Water ☐ Drainage
☐ Retail Wholesaler ☐ 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 5/8" Meter:

Most prevalent type of meter (if not a 5/8"): _____

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons over Minimum	Usage Levels
WATER:	\$ 39.00	0	N	\$ 6.75	0 up-to
				\$ 9.00	4,001 up-to
				\$ 11.25	7,001 up-to
				\$ 12.00	10,001 up-to
				\$ 13.00	15,001 up

District employs winter averaging for wastewater usage? ___ Yes ☒ No

Total charges per 10,000 gallons usage: Water: \$126.75

Water Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	-	-	x 1.0	-
≤ 3/4"	1,690	1,577	x 1.0	1,577
1"	1	1	x 2.5	2.5
1 1/2"	-	-	x 5.0	-
2"	4	3	x 8.0	24
3"	-	-	x 15.0	-
Total Water	1,695	1,581		1,604
Total Wastewater	-	-	x 1.0	-

See independent auditor's report.

Rose Hill Special Utility District
Services and Rates (continued)
December 31, 2022

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

Gallons pumped into system:	127,330,000
Gallons billed to customers:	112,495,860
Water Accountability Ratio:	88.35%

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

5. Location of District: 1377 CR 274, Terrell, TX 75160

County(ies) in which district is located. Kaufman

Is the District located entirely in one county? X Yes No

City(ies) in which District is located: Post Oak Bend (Fully) and Terrell (Partially)

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

ETJs in which District is located. Terrell, Kaufman, Post Oak Bend

Is the general membership of the Board appointed by an office outside the District?
 Yes X No

If yes, by whom? n/a

See independent auditor's report.

Rose Hill Special Utility District
Enterprise Fund Expenditures
December 31, 2022

Personnel Expenditures (including benefits)*	\$ 339,542
Professional Fees:	
Auditing	9,950
Legal	162,907
Engineering	126,479
Purchased Services For Resale:	
Bulk Water	458,184
Utilities	31,775
Repairs and Maintenance	
Field and Equipment	35,160
Repairs	170,921
Truck/Machine Maintenance	19,805
Administrative Expenditures:	
Operating Insurance	14,350
Office and Administrative	101,120
Other Expenditures	
Depreciation & Amortization	225,182
TOTAL OPERATING EXPENDITURES	<u>\$ 1,695,375</u>
 NON-OPERATING EXPENDITURES	
Interest Expense	<u> -</u>

* Number of persons employed by the District: 5 Full-Time 0 Part-Time

See independent auditor's report.

Rose Hill Special Utility District
Temporary Investments
December 31, 2022

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at Year End</u>
American National Bank MM:				
Customer Deposits Reserve	0.00%	Monthly	\$ 314,187	\$ -
Construction Reserve	0.00%	Monthly	202,000	
Sweep Acct Reserve	0.02%	Monthly	<u>2,143,414</u>	<u>-</u>
	Total		<u>\$ 2,659,601</u>	<u>\$ -</u>

See independent auditor's report.

Rose Hill Special Utility District
Long-Term Debt Service Requirements
American National Bank of Texas Loan
December 31, 2022

The district has no outstanding bonding indebtedness.

See independent auditor's report.

Rose Hill Special Utility District
Change in Long-Term Bonded Debt
December 31, 2022

The district has no outstanding bonding indebtedness.

See independent auditor's report.

Rose Hill Special Utility District
Comparative Schedule of Revenues and Expenses
Utility Fund
For the Three Years Ended December 31, 2022

	AMOUNTS		PERCENT OF FUND TOTAL REVENUE	
	2022	2021	2022	2021
OPERATING REVENUES:				
Water sales	\$ 1,738,217	\$ 1,530,825	\$ 1,556,116	93.87%
Customer charges/fees	158,457	154,282	101,555	6.13%
Total operating revenues	1,896,674	1,685,107	1,657,671	100.00%
OPERATING EXPENSES:				
Payroll and benefits	339,542	281,964	269,923	16.28%
Water purchased	458,184	550,378	548,361	33.08%
Repairs and maintenance	173,529	145,533	61,569	3.71%
Supplies & analysis	15,503	22,124	13,027	0.79%
Professional and legal fees	299,336	143,326	33,948	2.05%
Insurance	14,350	14,050	12,876	0.78%
Other operating costs	169,749	139,774	124,241	7.49%
Depreciation and amortization	225,182	247,771	240,840	14.53%
Total operating expenses	1,695,375	1,544,920	1,304,785	78.71%
Net operating revenue (expenses)	201,299	140,187	352,886	21.29%
NON-OPERATING REVENUES (EXPENSES)				
Interest income	425	1,900	2,047	0.12%
Interest expense	-	(714)	(6,708)	-0.40%
Developer Contributed Assets	186,545	-	-	0.00%
Gain (Loss) on disposal of assets	904,769	(82,829)	10,814	0.65%
Total nonoperating revenue (expenses):	1,091,739	(81,643)	6,153	0.37%
NET REVENUES (EXPENSES)	\$ 1,293,038	\$ 58,544	\$ 359,039	21.66%

See independent auditor's report

Rose Hill Special Utility District
Board Members, Key Personnel and Consultants
December 31, 2022

Complete District Mailing Address: 1377 County Road 274, Terrell, TX 75160

District Telephone Number: 972-932-3077

Submission Date of the most recent District Registration Form: August 14, 2022

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

	Term of Office (Elected or Appointed or <u>Date Hired</u>)	Fees of Office Paid <u>12/31/22</u>	Expense Reimbursements <u>12/31/22</u>	Title at <u>Year End</u>
Names:				
Board Members*:				
Randy Reznicek	2021-2024	\$ -	\$ -	President
Janet Frazier	2021-2024	-	-	Vice President
Harold Ross	2022-2025	-	-	Secretary/Treasurer
Earl Martin	2020-2023	-	-	Director
Kathy Dodd	2020-2023	-	-	Director

**Note – The District does not pay Directors for service on the Board.*

Key Administrative
Personnel:

Nanci Essary	January 2018	82,250	-	General Manager
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Consultants:

Kemp Smith Law	162,907	-	Attorney
Murrey, Paschall & Caperton, P.C.	9,950	-	CPA - Auditor
Daniel & Brown	14,147	-	Engineer

See independent auditor's report.