

ROSE HILL
SPECIAL UTILITY DISTRICT
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2025

MCPA, PC
Certified Public Accountants

Rose Hill Special Utility District
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December 31, 2025

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ANNUAL FILING AFFIDAVIT

STATE OF TEXAS COUNTY OF KAUFMAN

I, Kathy Dodd - President 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 24th day of FEBRUARY its annual audit report for the fiscal year or period ended DECEMBER 31, 2025 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)

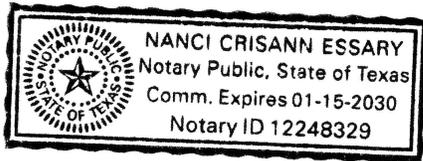
The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: 2-26-26 By: Kathy Dodd
(Signature of District Representative)

Kathy Dodd - President
(Typed Name & Title of above District Representative)

Sworn to and Subscribed to before me by this 26 day of FEBRUARY 2026
(SEAL)

Nanci Crisann Essary
(Signature of Notary)



My Commission Expires On: 1-15-2030
Notary Public in the State of Texas.

MCPA, PC

Certified Public Accountants

KYLE CAPERTON, CPA | ERIC PASCHALL, CPA | KYLE ALLIS, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
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, 2025, 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, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 opinion.

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' 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' 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' 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.

MCPA, PC

MCPA, P.C.
Certified Public Accountants
Forney, Texas
February 10, 2026

Rose Hill Special Utility District
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2025

Schedule
Reference
Number

Findings

(None noted)

Rose Hill Special Utility District
Corrective Actions Planned
For the Year Ended December 31, 2025

Schedule
Reference
Number

Actions Planned

(None)

Rose Hill Special Utility District
Management's Discussion and Analysis
December 31, 2025

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, 2025. Please read it in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded its liabilities by \$7,638,134 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$7,007,920. Of the \$7,638,134 in net assets, \$2,640,110 (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 \$1,854,337 generated from charges for services, customer charges and fees and investments for business-type activities surpassed expenses in 2025. The total Change in Net Assets was \$630,214 that includes approximately \$533,713 in nonoperating settlement revenue received in FY2025, which is included in unrestricted net assets available to meet ongoing obligations.

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 \$7,638,134. Of this amount, 65,43% reflects its investments in capital assets such as land, buildings, distribution system, improvements, machinery and equipment, 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>2025</u>	<u>2024</u>
Cash and Cash Equivalents	\$ 1,707,816	\$ 1,205,906
Other Current Assets	217,557	226,311
Non-Current Assets, net	<u>6,109,131</u>	<u>5,950,710</u>
Total assets	<u>\$ 8,034,505</u>	<u>\$ 7,382,928</u>
Liabilities:		
Current Liabilities	\$ 30,158	\$ 23,345
Long-term Liabilities	<u>366,213</u>	<u>351,663</u>
Total Liabilities	<u>396,371</u>	<u>375,008</u>
Net assets:		
Invested in capital assets, net of related debt	4,998,024	5,189,822
Unrestricted	<u>2,640,110</u>	<u>1,818,098</u>
Total net assets	<u>7,638,134</u>	<u>7,007,920</u>
Total Liabilities and Net Assets	<u>\$ 8,034,505</u>	<u>\$ 7,382,928</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, 2025. Business-type activities increased the District's net assets by \$136,112.

SUMMARY OF CHANGES IN NET ASSETS

	2025	2024
OPERATING REVENUES:		
Water sales	\$ 1,700,229	\$ 1,715,509
Customer charges/fees	<u>154,108</u>	<u>160,766</u>
Total operating revenues	<u>\$ 1,854,337</u>	<u>\$ 1,876,275</u>
OPERATING EXPENSES:		
Payroll and benefits	358,097	391,441
Water purchased	539,748	470,454
Repairs and maintenance	130,639	127,088
Supplies & analysis	12,506	18,661
Professional and legal fees	65,211	468,773
Insurance	26,530	19,309
Other operating costs	212,595	158,047
Depreciation and amortization	<u>372,899</u>	<u>312,864</u>
Total operating expenses	<u>1,718,225</u>	<u>1,966,637</u>
Net operating revenue (expenses)	<u>136,112</u>	<u>(90,362)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	166	172
Interest expense	-	-
Settlement Income	533,713	-
Gain (Loss) on disposal of assets	<u>(39,777)</u>	<u>-</u>
Total nonoperating revenue (expenses):	<u>494,102</u>	<u>172</u>
NET REVENUES (EXPENSES)	<u>630,214</u>	<u>(90,190)</u>
NET POSITION - BEGINNING	<u>7,007,920</u>	<u>7,098,110</u>
NET POSITION - ENDING	<u>\$ 7,638,134</u>	<u>\$ 7,007,920</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, 2025 is \$4,998,024. These include land, buildings, improvements, infrastructure, machinery and equipment.

	<u>2025</u>	<u>2024</u>
Land	\$ 189,813	\$ 189,813
Water Distribution System	7,826,145	7,714,544
Buildings	40,294	40,294
Vehicles	132,186	132,186
Machinery and Equipment	<u>261,744</u>	<u>251,803</u>
Total at Historical Cost	8,450,182	8,328,640
Total Accumulated Depreciation	<u>(3,452,159)</u>	<u>(3,138,818)</u>
Net Capital Assets	<u>\$ 4,998,024</u>	<u>\$ 5,189,822</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 \$370,989 of depreciation expense in 2025 compared to the prior year when depreciation was \$310,954. 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 2026.

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, 2025

	Business-type Activities-Enterprise (Utility Fund)
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,707,816
Accounts receivable (net)	134,672
Inventory field supplies	77,666
Prepaid and other assets	5,220
Total current assets	1,925,374
Non-current assets (Note 2)	
Capital assets (net)	4,998,024
Construction in progress	1,056,107
Deferred Debt Issuance Costs cost (net)	55,000
Total non-current assets	6,109,131
TOTAL ASSETS	\$ 8,034,505
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,597
Accrued expenses	11,374
Assessments collected and payable	17,187
Total current liabilities	30,158
Non-current liabilities:	
Customer deposits payable	366,213
Total non-current liabilities	366,213
TOTAL LIABILITIES	396,371
NET ASSETS	
Invested in capital assets, net of related debt	4,998,024
Unrestricted	2,640,110
TOTAL NET ASSETS	7,638,134
TOTAL LIABILITIES AND NET ASSETS	\$ 8,034,505

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, 2025

	Business-type Activities-Enterprise (Utility Fund)
OPERATING REVENUES:	
Water sales	\$ 1,700,229
Customer charges/fees	154,108
Total operating revenues	1,854,337
 OPERATING EXPENSES:	
Payroll and benefits	358,097
Water purchased	539,748
Repairs and maintenance	130,639
Supplies & analysis	12,506
Professional and legal fees	65,211
Insurance	26,530
Other operating costs	212,595
Depreciation and amortization	372,899
Total operating expenses	1,718,225
Net operating revenue (expenses)	136,112
 NON-OPERATING REVENUES (EXPENSES)	
Interest income	166
Interest expense	-
Settlement Income	533,713
Gain (Loss) on disposal of assets	(39,777)
Total nonoperating revenue (expenses):	494,102
CHANGE IN NET ASSETS:	630,214
TOTAL NET ASSETS - BEGINNING	7,007,920
TOTAL NET ASSETS - ENDING	\$ 7,638,134

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, 2025

	Business-type Activities-Enterprise (Utility Fund)
Cash flows from operating activities:	
Receipts from customers and users	\$ 1,861,630
Payments to suppliers	(978,955)
Payments to employees	(358,097)
Net cash provided (used) by operating activities	524,578
Cash flows from noncapital financing activities:	
Settlement Income	533,713
Cash provided (used) by noncapital financing activities	14,550
Net cash provided (used) by noncapital financing activities	548,263
Cash flows from capital and related financing activities:	
Payments for debt issuance cost	(55,000)
Acquisition and construction of capital assets	(516,097)
Net cash provided (used) by capital and related financing activities	(571,097)
Cash flows from investing activities:	
Interest received	166
Net cash provided (used) by investing activities	166
Net increase (decrease) in cash and cash equivalents	501,910
Cash and cash equivalents at beginning of year	1,205,906
Cash and cash equivalents at end of year	\$ 1,707,816

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, 2025

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

Operating income (loss)	\$	136,112
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization		372,899
Change in assets and liabilities		
(Increase) decrease in accounts receivable		7,293
(Increase) decrease in inventory field supplies		1,965
(Increase) decrease in prepaid and other assets		(504)
Increase (decrease) in accounts payable		1,597
Increase (decrease) in accrued expenses		5,216
Total adjustments		<u>388,466</u>
Net cash provided by operating activities	\$	<u><u>524,578</u></u>

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

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2025

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, 2025

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, and was fully amortized as of year end 2025.

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 it’s 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 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.

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2025

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, 2025 was \$370,989.

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, 2025, 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 \$8,119.

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, 2025

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	\$ 189,813	\$ -	\$ -	\$ 189,813
Water Distribution System	7,714,544	203,423	(91,821)	7,826,145
Buildings	40,294	-	-	40,294
Vehicles	132,186	-	-	132,186
Machinery and Equipment	251,803	15,545	(5,604)	261,744
Construction in Progress	<u>758,978</u>	<u>297,129</u>	<u>-</u>	<u>1,056,106</u>
Total capital assets at historical cost	9,087,617	516,097	(97,425)	9,506,289
Less accumulated depreciation for:				
Total accumulated depreciation	<u>3,138,818</u>	<u>370,989</u>	<u>(57,648)</u>	<u>3,452,159</u>
Business-type activities capital assets, net	<u>\$ 5,948,799</u>	<u>\$ 145,108</u>	<u>\$ (39,777)</u>	<u>\$ 6,054,130</u>

**Significant additions/disposals (Meter equipment, Tower Facility Rehab, and Sample Site).*

***Construction in Progress (Other Long-term Assets included as Construction in progress) –TXDOT Relocation, Pump Station Expansion, and VFD3 expected to be completed in 2026.*

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, 2025, 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, 2025

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, 2025, Money Market Accounts rated AAAM valued \$1,682,420.

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, 2025, 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, 2025, 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, 2025, 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, 2025, 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, 2025, the District was not exposed to foreign currency risk.

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2025

NOTE 4 – 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 2025, the monthly rate was \$57,779**.

** 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 2025 monthly total invoice of \$57,779, Rose Hill is receiving \$17,316 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, 2025, the District was obliged to its customers in the amount of \$366,213.

D. Deferred Loan Costs

During the year, the District incurred \$55,000 in preparing and submitting the application for the new X-Calliber Rural Capital loan (that includes USDA conditional commitment for loan guarantee) to fund water infrastructure upgrades. These costs have been recorded as a regulatory asset (deferred debt issuance costs) in anticipation of probable recovery through future utility rates, consistent with GASB Statement No. 62 for rate-regulated activities. The amount will be amortized as interest expense over the term of the loan, commencing upon loan approval and funding. If the loan is not obtained, the deferred amount will be expensed in full in the period the financing is determined to be unobtainable.

E. Litigation

During fiscal year 2024, Rose Hill Special Utility District (the District) was named as a defendant in litigation filed by the City of Terrell against the United States Department of Agriculture (USDA), the Rural Utilities Service (RUS), and the District. The lawsuit challenges a USDA/RUS decision approving a loan to the District and seeks declaratory and injunctive relief, as well as attorney's fees. As of fiscal year 2025, the matter is subject to a court-ordered stay, with periodic 60-day status reports being filed. The District intends to defend against the claims asserted should the stay be lifted.

Rose Hill Special Utility District
Notes to Financial Statements
December 31, 2025

During fiscal year 2025, the City of Terrell filed a separate lawsuit against the District alleging breach of contract related to two memoranda of agreement dated 2005 and 2008. The District intends to defend against the claims asserted in this matter.

Additionally, four landowners associated with a large-scale, multi-use development within the District's service area filed petitions with the Texas Public Utilities Commission (PUC) seeking decertification of their respective acreages from the District's water service area. During fiscal year 2025, the PUC ordered the landowners to reimburse the District \$145,664 for legal fees incurred. Also, during fiscal year 2025, the District received \$530,000 in settlement proceeds related to the resolution of lawsuits and PUC proceedings concerning the decertification of portions of the District's service area.

At this time, management does not believe the ultimate resolution of these matters will have a material adverse effect on the District's financial position.

NOTE 5 – SUBSEQUENT EVENTS

Rose Hill Special Utility District has evaluated subsequent events through February 10, 2026, 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, 2025

	Final Budget	Actual	Variance
Operating revenues:			
Water sales	\$ 1,704,000	\$ 1,700,229	\$ (3,771)
Customer charges/fees	<u>158,520</u>	<u>154,108</u>	<u>(4,412)</u>
Total operating revenues	<u>1,862,520</u>	<u>1,854,337</u>	<u>(8,183)</u>
Operating expenses:			
Payroll and benefits	390,540	358,097	32,443
Water purchased	532,020	539,748	(7,728)
Repairs and maintenance	140,220	130,639	9,581
Supplies & analysis	17,460	12,506	4,954
Professional and legal fees	256,500	65,211	191,289
Insurance	20,500	26,530	(6,030)
Other operating costs	172,020	212,595	(40,575)
Depreciation and amortization	<u>-</u>	<u>372,899</u>	<u>(372,899)</u>
Total operating expenses	<u>1,529,260</u>	<u>1,718,225</u>	<u>(188,965)</u>
Non-operating revenue (expenses):			
Interest income	240	166	(74)
Interest expense	-	-	-
Settlement Income	-	533,713	533,713
Gain (Loss) on disposal of assets	<u>-</u>	<u>(39,777)</u>	<u>(39,777)</u>
Total nonoperating revenue (expenses):	<u>240</u>	<u>494,102</u>	<u>493,862</u>
Change in net assets	333,500	630,214	296,714
Total net assets-beginning	<u>6,798,873</u>	<u>7,007,920</u>	<u>209,047</u>
Total net assets-ending	<u>\$ 7,132,373</u>	<u>\$ 7,638,134</u>	<u>\$ 505,761</u>
Supplemental Information			
Exclude non-cash depreciation:	-	372,899	
Capital purchases	(300,000)	(516,097)	
Exclude non-cash nonoperating revenue	<u>-</u>	<u>(493,936)</u>	
Cash budget changes:	<u>\$ 33,500</u>	<u>\$ (6,920)</u>	

See independent auditor's report.

TEXAS SUPPLEMENTARY INFORMATION (TSI)
(Other Supplementary Information)

Rose Hill Special Utility District
 Services and Rates
 December 31, 2025

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:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	-
≤ 3/4"	1,788	1,643	x 1.0	1,643
1"	1	1	x 2.5	2.5
1 1/2"	1	1	x 5.0	5
2"	2	2	x 8.0	16
3"	-	-	x 15.0	-
Total Water	1,792	1,647		1,666.5
Total Wastewater	-	-	x 1.0	-

See independent auditor's report.

Rose Hill Special Utility District
 Services and Rates (continued)
 December 31, 2025

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

Gallons pumped into system:	123,329,000
Gallons billed to customers:	107,945,148*
Water Accountability Ratio:	87.53%

**excludes District auto flushed gallons*

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, 2025

Personnel Expenditures (including benefits)*	\$ 358,097
Professional Fees:	
Auditing	10,850
Legal	29,534
Engineering	24,827
Purchased Services For Resale:	
Bulk Water	539,748
Utilities	35,247
Repairs and Maintenance	
Field and Equipment	37,114
Repairs	128,897
Truck/Machine Maintenance	20,230
Administrative Expenditures:	
Operating Insurance	26,530
Office and Administrative	134,252
Other Expenditures	
Depreciation & Amortization	<u>372,899</u>
TOTAL OPERATING EXPENDITURES	<u>\$ 1,718,225</u>
 NON-OPERATING EXPENDITURES	
Interest Expense	<u> -</u>

* Number of persons employed by the District: 4 Full-Time 0 Part-Time

See independent auditor's report.

Rose Hill Special Utility District
 Temporary Investments
 December 31, 2025

<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	\$ 351,663	\$ -
Construction Reserve	0.00%	Monthly	202,000	-
Sweep Acct Reserve	0.02%	Monthly	<u>1,128,757</u>	<u>-</u>
	Total		<u>\$ 1,682,420</u>	<u>\$ -</u>

See independent auditor's report.

Rose Hill Special Utility District
Long-Term Debt Service Requirements
December 31, 2025

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, 2025

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, 2025

	AMOUNTS			PERCENT OF FUND TOTAL REVENUE		
	2025	2024	2023	2025	2024	2023
OPERATING REVENUES:						
Water sales	\$ 1,700,229	\$ 1,715,509	\$ 1,786,585	91.69%	91.43%	88.52%
Customer charges/fees	154,108	160,766	231,778	8.31%	8.57%	11.48%
Total operating revenues	1,854,337	1,876,275	2,018,363	100.00%	100.00%	100.00%
OPERATING EXPENSES:						
Payroll and benefits	358,097	391,441	355,501	19.31%	20.86%	17.61%
Water purchased	539,748	470,454	473,072	29.11%	25.07%	23.44%
Repairs and maintenance	130,639	127,088	152,786	7.05%	6.77%	7.57%
Supplies & analysis	12,506	18,661	15,306	0.67%	0.99%	0.76%
Professional and legal fees	65,211	468,773	249,033	3.52%	24.98%	12.34%
Insurance	26,530	19,309	18,339	1.43%	1.03%	0.91%
Other operating costs	212,595	158,047	157,619	11.46%	8.42%	7.81%
Depreciation and amortization	372,899	312,864	271,770	20.11%	16.67%	13.46%
Total operating expenses	1,718,225	1,966,637	1,693,426	92.66%	104.82%	83.90%
Net operating revenue (expenses)	136,112	(90,362)	324,937	7.34%	-4.82%	16.10%
NON-OPERATING REVENUES (EXPENSES)						
Interest income	166	172	304	0.01%	0.01%	0.02%
Interest expense	-	-	-	0.00%	0.00%	0.00%
Settlement Income	533,713	-	-	28.78%	0.00%	0.00%
Gain (Loss) on disposal of assets	(39,777)	-	(94,269)	-2.15%	0.00%	-4.67%
Total nonoperating revenue (expenses):	494,102	172	(93,965)	26.65%	0.01%	-4.66%
NET REVENUES (EXPENSES)	\$ 630,214	\$ (90,190)	\$ 230,972	33.99%	-4.81%	11.44%

See independent auditor's report

Rose Hill Special Utility District
Board Members, Key Personnel and Consultants
December 31, 2025

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: July 30, 2025

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

Names:	Term of Office (Elected or Appointed or <u>Date Hired</u>)	Fees of Office Paid <u>12/31/25</u>	Expense Reimbursements <u>12/31/25</u>	Title at <u>Year End</u>
Board Members*:				
Kathy Dodd	2023-2026	\$ -	\$ -	President
Alex Rossler	2024-2027	-	-	Vice President
Janette Simons	2024-2027	-	-	Secretary/Treasurer
Jay Schenkel	2023-2026	-	-	Director
John Harris	2025-2028	-	-	Director

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

Key Administrative
Personnel:

Nanci Essary	January 2018	86,539	-	General Manager
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Consultants:

Kemp Smith Law		169,434	-	Attorney
MCPA, P.C.		10,500	-	CPA - Auditor
Atkins North America, Inc.		235,349		Engineer

See independent auditor’s report.

MCPA, PC

Certified Public Accountants

KYLE CAPERTON, CPA | ERIC PASCHALL, CPA | KYLE ALLIS, CPA

February 10, 2026

To the Board of Directors and Management
Rose Hill Special Utility District

We have audited the financial statements of the business type activities of the Rose Hill Special Utility District (District) as of and for the year ended December 31, 2025, and have issued our report thereon dated February 10, 2026. Professional standards require that we advise you of the following matters relating to our audit.

OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

As communicated in our engagement letter dated December 29, 2025, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

PLANNED SCOPE AND TIMING OF THE AUDIT

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team has complied with all relevant ethical requirements regarding independence.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of the District's Significant Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Rose Hill Special Utility District are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive estimate affecting the Rose Hill Special Utility District's financial statements was:

Management's estimate of the depreciation of the District's fixed assets is based upon management's estimate of the specific assets useful life and the cost of the assets is depreciated accordingly. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgement and are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no unusual transactions noted.

Significant Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

These included adjustments to:

- Reclass Fixed Assets Completed and Construction in Progress from Capital Expenditure account based on project status at year end.
- True up the depreciation expense estimate to actual for 2025.
- Adjust accrued expenses.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 10, 2026.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

OTHER MATTERS

We applied certain limited procedures to the MD&A, Budget and Actual schedules, GASB 68 Pension schedules, as well as the Texas Supplementary Information Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

RESTRICTION ON USE

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

Very truly yours,

MCPA, PC

MCPA, P.C.