

FOUR WAY SPECIAL UTILITY DISTRICT
Huntington, Texas

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Four Way Special Utility District

Opinion

We have audited the accompanying financial statements of Four Way Special Utility District ("The District"), which comprise the statement of net position as of December 31, 2023, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Four Way Special Utility District as of December 31, 2023, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Four Way Special Utility District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 and *Government Auditing Standards* that 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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.
- Obtaining 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 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Four Way Special Utility District's financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 16, 2024 on our consideration of Four Way Special Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 16, 2024



FOUR WAY SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Four Way Special Utility District (the District) offers the reader of the District's basic financial statements this narrative overview and analysis of the financial performance of the District for the year ended December 31, 2023. Please read it in conjunction with the District's basic financial statements, which follow this section.

Overview of Water District

Four Way Water Supply Corporation was organized and chartered on March 7, 1966 under Article 143a of the Revised Civil Statutes of Texas of 1925 for the purpose of providing and furnishing a safe and dependable water supply to the rural area in Angelina County.

Only July 1, 2007, Four Way Water Supply Corporation became a Special Utility District in order to provide the system customers with a recognized political subdivision that would have the powers needed to obtaining alternative and more favorable methods of financing the future system improvements.

A Special Utility District (SUD) is a political subdivision, and can issue revenue bonds on the open market or for purchase by the Texas Water Development Board (TWDB). A SUD is exempt from ad valorem taxes on its personal property, utility lines and plant facilities, as well as sales tax on supplies and services. It is subject to the Open Meetings and Open Records Act. It must follow statutory bid advertisement and contract provisions for political subdivisions and is subject to the continuing right of supervision by the Texas Commission on Environmental Quality (TCEQ).

Four Way Special Utility District currently provides service to over 2,000 customers.

Financial Highlights

- The District's total assets and deferred outflows exceeded liabilities and deferred inflows by \$7,177,327 on December 31, 2023 as a result of the year's operations.
- The District's total assets and deferred outflows were \$7,625,607; of this amount \$5,680,148 represents capital assets and \$1,945,459 represents cash and cash equivalents, other assets and deferred outflows.
- Liabilities and deferred inflow for the District totaled \$448,280.
- Operating revenues for the District at year end were \$1,658,958 and exceeded operating expense by \$308,723. The major revenue sources that contributed to the District were water sales.

Financial Analysis

Net Position: The District's net position was \$7,177,327 at December 31, 2023. (See Table 1)

	TABLE 1 NET POSITION		
	DECEMBER 31,		TOTAL PERCENTAGE CHANGE 2023-2022
	2023	2022	
Current assets	\$ 1 484 809	\$ 1 317 517	12.70
Restricted assets	387 789	378 392	2.48
Capital assets	5 680 148	5 821 375	(2.43)
Other assets	9 512	65 989	(85.59)
TOTAL ASSETS	7 562 258	7 583 273	(0.28)
DEFERRED OUTFLOWS	63 349	46 056	
Current liabilities	419 488	605 460	(37.99)
Long-term liabilities	9 248	140 078	(61.98)
TOTAL LIABILITIES	428 736	745 538	(42.49)
DEFERRED INFLOWS	19 544	75 115	(73.98)
TOTAL NET POSITION	\$ 7 177 327	\$ 6 808 676	5.41

The total net position increased \$368,651, which represents a combination of net operating profit of \$308,723 and net non-operating loss of \$59,928.

The District's total revenues were \$1,712,414. A significant portion, 97 percent, of the District's revenues came from service revenues (sale of water) (See Table 2).

TABLE 2
CHANGES IN NET POSITION

	DECEMBER 31,		TOTAL PERCENTAGE CHANGE 2023-2022
	2023	2022	
Operating Revenues:			
Service revenues	\$ 1 658 958	\$ 1 547 446	7.21
TOTAL OPERATING INCOME	<u>1 658 958</u>	<u>1 547 446</u>	7.21
Operating Expenses:			
Payroll costs	367 316	341 988	7.41
Professional fees	17 360	16 108	7.77
Utilities	109 610	92 870	18.03
Repairs and maintenance	275 584	249 437	10.48
Administrative expenses	267 079	290 165	(7.96)
Depreciation expense	313 286	282 428	10.93
TOTAL OPERATING EXPENSES	<u>1 350 235</u>	<u>1 272 996</u>	6.07
Operating income (loss)	<u>308 723</u>	<u>274 450</u>	12.49
Non-Operating Revenue (Expense):			
Miscellaneous income	11 780	4 082	188.58
Interest income	41 676	8 370	397.92
Interest expense	(7 631)	(19 253)	(60.36)
Gain on sale of assets	14 103	-	100.00
TOTAL NON-OPERATING	<u>59 928</u>	<u>(6 801)</u>	(981.16)
CHANGE IN NET POSITION	368 651	267 649	37.74
Net position at beginning of year	6 808 676	6 541 027	4.09
NET POSITION AT END OF YEAR	<u>\$ 7 177 327</u>	<u>\$ 6 808 676</u>	5.41

Financial Analysis of Government Funds

The District has no governmental funds. See Notes to Financial Statements.

Analysis of Changes in Capital Assets and Long-Term Debt:

As of December 31, 2023, the District had invested \$5,680,148 in net capital assets consisting of the land, building, water equipment, vehicles, office equipment, and right of use assets. Approximately \$461,766 in capital assets were purchased in 2023.

As of December 31, 2023, the District had long-term debt outstanding of \$159,637 which consisted of a revenue note and right of use liabilities. \$106,374 of the long-term debt is due within the next fiscal year. The District paid \$292,097 in principal during 2023.

The Budget, Economic Environment, and Rates:

The District is not aware of any other significant changes to the budget for the upcoming year. The original budget for the year ended December 31, 2023 was amended as needed and the District's net income was more than budget by \$257,142.

Contacting the District's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the business office, at P. O. Box 250, Huntington, Texas 75949-0250.

FINANCIAL STATEMENTS

FOUR WAY SPECIAL UTILITY DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
For the Year Ended December 31, 2023

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1 296 811
Accounts receivable	171 318
Prepaid insurance	16 680
TOTAL CURRENT ASSETS	1 484 809
Non-Current Assets:	
Restricted cash and cash equivalents	387 789
Capital Assets:	
Land and easements	204 484
Buildings, office equipment, automobiles, water distribution system, wells, plants and right of use assets, net	5 258 815
Construction in progress	216 849
TOTAL CAPITAL ASSETS	5 680 148
Net pension asset	9 512
TOTAL NON-CURRENT ASSETS	6 077 449
DEFERRED OUTFLOWS	
Deferred outflows - Pension	63 349
TOTAL DEFERRED OUTFLOWS	63 349
TOTAL ASSETS AND DEFERRED OUTFLOWS	7 625 607
LIABILITIES	
Current Liabilities:	
Accounts payable	5 933
Accrued expenses	27 348
Interest payable	268
Deposits payable	235 550
Current portion of long-term debt	150 389
TOTAL CURRENT LIABILITIES	419 488
Non-Current Liabilities:	
Long-term debt	9 248
TOTAL LIABILITIES	428 736
DEFERRED INFLOWS	
Deferred inflows - Pension	19 544
TOTAL DEFERRED INFLOWS	19 544
TOTAL LIABILITIES AND DEFERRED INFLOWS	448 280
NET POSITION	
Net investment in capital assets	5 538 639
Restricted - Bond covenant	387 789
Unrestricted	1 250 899
TOTAL NET POSITION	\$ 7 177 327

The accompanying notes to financial statements are an integral part of these statements.

FOUR WAY SPECIAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES
PROPRIETARY FUND
For the Year Ended December 31, 2023

Operating Revenues:	
Water sales	\$ 1 478 443
Connection fees	147 312
Penalties	33 203
TOTAL OPERATING REVENUES	<u>1 658 958</u>
Operating Expenses:	
Payroll costs	367 316
Professional fees	17 360
Utilities	109 610
Repairs and maintenance	275 584
Administrative expense	267 079
Depreciation expense	313 286
TOTAL OPERATING EXPENSES	<u>1 350 235</u>
OPERATING INCOME	<u>308 723</u>
Non-Operating Revenues (Expenses):	
Gain(loss) on sale of assets	14 103
Interest income	41 676
Interest expense	(7 631)
Miscellaneous income	11 780
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>59 928</u>
CHANGE IN NET POSITION	368 651
Net position, beginning of year	<u>6 808 676</u>
NET POSITION, END OF YEAR	<u>\$ 7 177 327</u>

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

FOUR WAY SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended December 31, 2023

Cash Flows from Operating Activities:	
Cash received from customers	\$ 1 639 856
Cash payments to suppliers for goods and services	(735 585)
Cash payments to employees for services	(384 974)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>519 297</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(173 255)
Principal paid on long-term debt	(266 513)
Interest paid on long-term debt	(10 382)
Increase in deposits payable	2 950
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(447 200)</u>
Cash Flows from Investing Activities:	
Proceeds from sale of capital assets	29 402
Interest on cash and investments	41 676
Other non-operating income	11 780
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>82 858</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	154 955
Cash and cash equivalents, beginning of year	<u>1 529 645</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1 684 600</u>

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities

Operating income	\$ <u>308 723</u>
Adjustments to Reconcile Operating Income to Net Cash Used in Operations:	
Depreciation	313 286
Gain on disposal of fixed assets	(14 103)
(Increase) in accounts receivable	(19 102)
(Increase) in prepaid expenses	(2 632)
(Increase) in deferred outflow - Pension	(17 293)
Decrease in net pension asset	56 477
Increase in accounts payable	2 262
(Decrease) in retirement payable	(1 271)
(Decrease) in deferred well lease	(51 479)
(Decrease) in deferred inflows - Pension	(55 571)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 519 297</u>

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

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity:

On July 1, 2007, Four Way Water Supply Corporation became a Special Utility District (the District). The District is a political subdivision operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Directors elected by registered voters of the Special Utility District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

A. Fund Accounting:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows, deferred outflows, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The District has only one generic fund type as follows:

Proprietary Fund

Enterprise Fund - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The District operates as a singular enterprise fund.

B. Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

C. Capital Assets:

The District's fixed assets are capitalized and recorded at historical cost, less accumulated depreciation. Donated fixed assets are recorded at fair value at date of gift. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. Estimated useful lives are as follows:

Furniture and Equipment	3 - 10 years
Water and Sewer Systems	15 - 20 years
Building	15 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

D. Basis of Accounting:

Basis of accounting refers to the point which revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

As permitted by generally accepted accounting principles, the District has elected to apply only applicable FASB statements and interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to residential customers for water and the related installation fees. Operating expenses report on the costs to maintain the water system, the cost of sales and service, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Data:

The official budget was prepared for adoption for the proprietary fund. The following procedures are followed in establishing the budgetary data reflected in the required supplementary information:

- a. Prior to the beginning of fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the District is then called for the purpose of adopting the proposed budget. Public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended only by approval of a majority of the members of the Board.

F. Cash and Cash Equivalents:

The District defines cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less when purchased by the District.

G. Accounts Receivable:

Accounts receivable is recorded when water bills are issued net of an allowance for doubtful accounts. Accounts receivable is written off when they are determined by management to be uncollectible. The allowance for doubtful accounts is estimated based on accounts past due over 90 days. All accounts due the District at December 31 are expected to be collected.

H. Net Position:

Net position in the proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent constraints on Net assets classified as invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.

Unrestricted net position consist of net position that does not meet the definition of "restricted" or "net investment in capital assets."

I. Subsequent Events:

Management has evaluated subsequent events through April 16, 2024, the date the financial statements were available to be issued.

NOTE 2 - CASH AND INVESTMENTS

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures disclosed that in the areas of management reports and establishment of appropriate policies, the District adhered to all the requirements of the Act for the year ended December 31, 2023. Additionally, the District's investment practices were in accordance with local policies.

At December 31, 2023, the carrying amount of the District's deposits (cash, certificates of deposit and interest-bearing accounts in temporary investments) was \$1,684,600, and the bank balance was \$1,692,765.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment (generally, the longer the maturity of an investment, the greater the sensitivity of its fair value). The District limited interest rate risk at December 31, 2023 by investing only in money market accounts and certificates of deposit.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. The District places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) coverage is \$250,000 for demand deposits and \$250,000 for time and savings deposits. With a total bank balance of \$1,692,765, only \$1,613,911 was covered by federal depository insurance leaving the District underinsured by \$78,854 as of December 31, 2023.

The cash deposits held at financial institutions can be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 - deposits that are insured or collateralized with securities held by the District or its agent in the District's name. Category 2 - deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Category 3 - deposits which are not collateralized or insured.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

Based on these three levels of risk, at December 31, 2023, the District's cash deposits are classified as follows:

	CATEGORY			BANK BALANCE	COLLATERAL MARKET VALUE
	1	2	3		
Cash, cash equivalents and certificates of deposit	\$ 1 692 765	\$ -	\$ -	\$ 1 692 765	\$ 145 040

Investments - The District is authorized to invest in obligations of the U. S. Treasury, agencies, and instrumentalities, certificates of deposit, and in approved public funds investment pools.

NOTE 3 - CAPITAL ASSETS

Capital assets are recorded at cost. Expenses for maintenance and repairs are charged to operations. Betterments that materially extend the life are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Capital asset activity for the District, for the year ended December 31, 2023, was as follows:

	BALANCE 12/31/2022	ADDITIONS	DELETIONS	BALANCE 12/31/2023
Capital Assets Not Being Depreciated:				
Land	\$ 205 680	\$ -	\$ (1 196)	\$ 204 484
Construction in process	505 360	21 019	(309 530)	216 849
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	711 040	21 019	(310 726)	421 333
Capital Assets Being Depreciated:				
Buildings	970 513	-	-	970 513
Company vehicles	180 804	53 429	(23 447)	210 786
Furniture and equipment	428 641	30 916	(25 710)	433 847
Water system	3 872 212	309 530	(169 456)	4 012 286
Wells and plants	4 437 204	42 307	(9 912)	4 469 599
Right of use assets	-	25 584	-	25 584
TOTAL CAPITAL ASSETS BEING DEPRECIATED	9 889 374	461 766	(228 525)	10 122 615
Allowance for depreciation	(4 779 093)	(313 286)	228 525	(4 863 800)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	5 110 335	148 480	-	5 258 815
TOTAL CAPITAL ASSETS, NET	\$ 5 821 375	\$ 169 499	\$ (310 726)	\$ 5 680 148

NOTE 4 - CHANGES IN LONG-TERM DEBT

Debt consists of the following at December 31, 2023:

\$2,500,000 Bond Payable, dated July 1, 2014, bearing interest at 3.30%, monthly payments of \$24,545, maturing on June 1, 2024	\$ 141 510
\$13,616 Right of Use Asset Payable, dated January 1, 2023, bearing interest at 3.77%, maturing in 2025	9 246
\$4,347 Right of Use Asset Payable, dated November 18, 2023, bearing interest at 4.72%, maturing in 2025	2 842
\$7,621 Right of Use Asset Payable, dated October 30, 2023, bearing interest at 4.37%, maturing in 2025	6 039
TOTAL DEBT PAYABLE	\$ 159 637

Long-term debt activity for the District for the year ended December 31, 2023, was as follows:

	BEGINNING BALANCE	AMOUNT ISSUED	AMOUNT REDEEMED	ENDING BALANCE
Regions Bank	\$ 426 150	\$ -	\$ (284 640)	\$ 141 510
Right of use payables	-	25 584	(7 457)	18 127
TOTAL	\$ 426 150	\$ 25 584	\$ (292 097)	\$ 159 637

The annual requirement to amortize outstanding debt as of December 31, 2023 follows:

YEAR	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2024	\$ 150 389	\$ 1 354	\$ 151 743
2025	9 248	301	9 549
TOTAL	\$ 159 637	\$ 1 655	\$ 161 292

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN

1. Plan Information

Plan Description. The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 641 nontraditional defined benefit pension plans. TCDRS in the aggregate issues an annual comprehensive financial report (ACFR) on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

Membership Information

MEMBERS	DECEMBER 31,	
	2021	2022
Number of Inactive Employees Entitled to but Not Yet Receiving Benefits:	5	4
Number of Active Employees:	5	6
Average Monthly Salary*:	\$ 4,352	\$ 4,406
Average Age*:	43.71	40.68
Average Length of Service in Years*:	13.77	12.46

** Averages reported for all active and inactive employees. Average service includes all proportionate service.*

2. Actuarial Assumptions

Following are the key assumptions and methods used in this GASB analysis.

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal ⁽¹⁾
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	Same as funding valuation
Salary Increases	Same as funding valuation
Investment Rate of Return	7.60%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the District are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Same as funding valuation
Turnover	Same as funding valuation
Mortality	Same as funding valuation

(1) Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

Actuarial Methods and Assumptions Used for Funding Valuation:

Following is a description of the assumptions used in the December 31, 2022 actuarial valuation analysis for the District. This information may also be found in the Four Way Special Utility District December 31, 2022 Summary Valuation Report.

Economic Assumptions:

TCDRS System-Wide Economic Assumptions:

Real rate of return	5.00%
Inflation	2.50%
Long-term investment return	7.50%

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN - CONTINUED

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.00% (made up of 2.50% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.6% per year for a career employee. (See Table 1 for Merit Salary Increases.)

Employer-Specific Economic Assumptions:

Growth in membership	0.0%
Payroll growth	0.0%

The payroll growth assumption is for the aggregate covered payroll of an employer.

**Table 1
Merit Salary Increases***

Years of Service	Entry Age			
	Before 30	Ages 30-39	Ages 40-49	50 and Later
0	5.25%	4.75%	4.25%	3.50%
1	4.50%	4.00%	3.50%	2.75%
2	4.10%	3.25%	2.85%	2.20%
3	3.70%	3.00%	2.50%	1.75%
4	3.35%	2.75%	2.25%	1.65%
5	3.10%	2.60%	2.15%	1.55%
6	2.85%	2.40%	2.05%	1.40%
7	2.65%	2.25%	1.90%	1.25%
8	2.50%	2.15%	1.80%	1.15%
9	2.35%	2.00%	1.65%	1.05%
10	2.20%	1.85%	1.50%	0.95%
11	2.10%	1.75%	1.35%	0.85%
12	1.95%	1.65%	1.25%	0.80%
13	1.85%	1.55%	1.10%	0.75%
14	1.75%	1.45%	1.00%	0.70%
15	1.65%	1.35%	0.90%	0.65%
16	1.50%	1.25%	0.85%	0.60%
17	1.40%	1.15%	0.75%	0.55%
18	1.30%	1.05%	0.70%	0.50%
19	1.25%	1.00%	0.65%	0.45%
20	1.20%	0.95%	0.60%	0.40%
21	1.15%	0.90%	0.55%	0.40%
22	1.10%	0.85%	0.50%	0.40%
23	1.00%	0.75%	0.45%	0.40%
24	0.94%	0.65%	0.40%	0.40%
25	0.88%	0.60%	0.40%	0.40%
26	0.82%	0.60%	0.40%	0.40%
27	0.76%	0.60%	0.40%	0.40%
28	0.70%	0.60%	0.40%	0.40%
29	0.65%	0.60%	0.40%	0.40%
30 & Up	0.60%	0.60%	0.40%	0.40%

** These rates do not include the wage inflation rate of 3.00% per year. For example, a member who entered the system at age 20 and is in the first year of service is assumed to receive 8.41% total annual increase in his salary. The 8.41% is a combination of the 5.25% merit increase and the 3.00% wage inflation. Note that the two components are compounded, so it is a slightly different result than just adding the two percentages.*

Demographic Assumptions

TCDRS System-Wide Demographic Assumptions:

Replacement of Terminated Members - New employees are assumed to replace any terminated members and have similar entry ages.

Disability - The rates of disability used in this valuation are illustrated in Table 2. Members who become disabled are eligible to commence benefit payments regardless of age. Rates of disability are in a custom table based on TCDRS experience.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN - CONTINUED

Table 2
Annual Rates of Disability*

Age	Work Related Male and Female	All Other Causes Male and Female	Age	Work Related Male and Female	All Other Causes Male and Female
less than 25	0.001%	0.001%	43	0.001%	0.058%
25	0.001%	0.003%	44	0.001%	0.066%
26	0.001%	0.006%	45	0.001%	0.074%
27	0.001%	0.009%	46	0.001%	0.082%
28	0.001%	0.011%	47	0.001%	0.090%
29	0.001%	0.013%	48	0.001%	0.099%
30	0.001%	0.014%	49	0.001%	0.108%
31	0.001%	0.016%	50	0.001%	0.117%
32	0.001%	0.018%	51	0.001%	0.126%
33	0.001%	0.020%	52	0.001%	0.135%
34	0.001%	0.023%	53	0.001%	0.144%
35	0.001%	0.025%	54	0.001%	0.153%
36	0.001%	0.028%	55	0.001%	0.162%
37	0.001%	0.030%	56	0.001%	0.171%
38	0.001%	0.034%	57	0.001%	0.180%
39	0.001%	0.038%	58	0.001%	0.189%
40	0.001%	0.042%	59	0.001%	0.198%
41	0.001%	0.046%	60 & Above	0.000%	0.000%
42	0.001%	0.050%			

* The probability of disablement from all other causes is applicable for members who are vested but not eligible for service retirement. Before a member is vested, only the work related disability provisions are applicable.

Mortality

Depositing members	135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Service retirees, beneficiaries and non-depositing members	135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Disabled retirees	160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Family Composition - For current retirees, beneficiary information is supplied by TCDRS. For purposes of calculating the Survivor Benefit for current depositing and non-depositing members, male members are assumed to have a female beneficiary who is three years younger. Female members are assumed to have a male beneficiary who is three years older.

Service Retirement - Members eligible for service retirement are assumed to retire at the rates shown in Table 3.

Table 3
Annual Rates of Service Retirement*

Age	Active Svc <15	Active Svc 15-24	Active Svc 25-29	Active Svc 30+	Deferred All Svc
40-49	5.3%	6.3%	7.7%	8.8%	0.0%
50	5.6%	6.8%	8.3%	9.4%	0.0%
51	5.6%	6.8%	8.3%	9.4%	0.0%
52	6.0%	7.2%	8.8%	10.0%	0.0%
53	6.0%	7.2%	8.8%	10.0%	0.0%
54	6.8%	8.1%	9.9%	11.3%	0.0%
55	6.8%	8.1%	9.9%	11.3%	0.0%
56	6.8%	8.1%	9.9%	11.3%	0.0%
57	7.5%	9.0%	11.0%	12.5%	0.0%
58	7.5%	9.0%	11.0%	12.5%	0.0%
59	7.5%	9.0%	11.0%	12.5%	0.0%
60	9.0%	10.8%	13.2%	15.0%	12.0%
61	9.0%	10.8%	13.2%	15.0%	12.0%
62	13.5%	16.2%	19.8%	22.5%	18.0%
63	11.3%	13.5%	16.5%	18.8%	15.0%
64	11.3%	13.5%	16.5%	18.8%	15.0%
65	22.5%	22.5%	27.5%	27.5%	25.0%
66	22.5%	22.5%	27.5%	27.5%	25.0%
67	21.6%	21.6%	26.4%	26.4%	24.0%
68	18.9%	18.9%	23.1%	23.1%	21.0%
69	18.9%	18.9%	23.1%	23.1%	21.0%
70	20.7%	20.7%	25.3%	25.3%	23.0%
71	20.7%	20.7%	25.3%	25.3%	23.0%
72	20.7%	20.7%	25.3%	25.3%	23.0%
73	20.7%	20.7%	25.3%	25.3%	23.0%
74	20.7%	20.7%	25.3%	25.3%	23.0%
75 & Above	100.0%	100.0%	100.0%	100.0%	100.0%

* For all eligible members ages 75 and later, retirement is assumed to occur immediately.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN - CONTINUED

Employer-Specific Demographic Assumptions:

Other Terminations of Employment - The rate of assumed future termination from active participation in the plan for reasons other than death, disability or retirement are illustrated in Table 4. The rates vary by length of service, entry-age group (age at hire) and sex. No termination after eligibility for retirement is assumed.

**Table 4
Annual Rates of Termination**

Years of Service	Entry Age 20		Entry Age 30		Entry Age 40		Entry Age 50	
	Male	Female	Male	Female	Male	Female	Male	Female
0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
4	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
5	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
6	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
7	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
8	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
9	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
10	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
11	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
12	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
13	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
14	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
15	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
16	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
17	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
18	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
19	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
21	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
22	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
25	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
26	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
27	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
28	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
29	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
30 & Later	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Withdrawals - Members who terminate may either elect to leave their account with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting schedule. Rates applied to the plan are shown in Table 5. For non-depositing members who are not vested, 100% are assumed to elect a withdrawal.

**Table 5
Probability of Withdrawal**

Years of Service	Probability	Years of Service	Probability
0	100%	15	26%
1	100%	16	25%
2	100%	17	24%
3	100%	18	23%
4	100%	19	22%
5	100%	20	21%
6	100%	21	20%
7	100%	22	19%
8	100%	23	19%
9	100%	24	18%
10	32%	25	18%
11	31%	26	17%
12	30%	27	17%
13	29%	28	16%
14	27%	29*	16%

* Members with more than 29 years of service are not assumed to refund.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN - CONTINUED

3. Long-Term Expected Rate of Return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2023 information for a 10 year time horizon.

Note that the valuation assumption for the long-term expected return is re-assessed in detail at a minimum of every four years, and is set based on a long-term time horizon. The TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. Milliman relies on the expertise of Cliffwater in this assessment.

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.95%
Global Equities	MSCI World (net) Index	2.50%	4.95%
International Equities - Developed	MSCI World Ex USA (net) Index	5.00%	4.95%
International Equities - Emerging	MSCI Emerging Markets (net) Index	6.00%	4.95%
Investment-Grade Bonds	Bloomberg Barclays US Aggregate Bond Index	3.00%	2.40%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.39%
Direct Lending	Morningstar LSTA US Leveraged Loan TR USD Index	16.00%	6.95%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	7.60%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	5.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	7.95%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash Equivalents	90-Day U. S. Treasury	2.00%	0.20%

(1) Target asset allocation adopted at the March 2023 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return for the asset class minus the assumed inflation rate of 2.3%, per Cliffwater's 2023 capital market assumptions.

(3) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

4. Depletion of Plan Assets / GASB Discount Rate

The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plans fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plans fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN - CONTINUED

3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 7.60%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

5. Sensitivity Analysis

The following presents the net pension liability of the county/district, calculated using the discount rate of 7.60%, as well as what the District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate.

	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Total pension liability	\$ 558 704	\$ 480 965	\$ 415 966
Fiduciary net position	\$ 490 477	\$ 490 477	\$ 490 477
Net pension liability/(asset)	\$ 68 227	\$ (9 512)	\$ (74 511)

6. Changes in Net Pension Liability

Changes in Net Pension Liability / (Asset)		Total Pension Liability (a)	Increase (Decrease) Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2021	\$	434 168	\$ 500 157	\$ (65 989)
Changes for the Year:				
Service cost		25 232	-	25 232
Interest on total pension liability ⁽¹⁾		34 197	-	34 197
Effect of plan changes		-	-	-
Effect of economic/demographic gains or losses		6 591	-	6 591
Effect of assumptions changes or inputs		-	-	-
Refund of contributions		(19 223)	(19 223)	-
Benefit payments		-	-	-
Administrative expenses		-	(287)	287
Member contributions		-	15 711	(15 711)
Net investment income		-	(30 896)	30 896
Employer contributions		-	21 995	(21 995)
Other ⁽²⁾		-	3 020	(3 020)
Balances as of December 31, 2022	\$	480 965	\$ 490 477	\$ (9 512)

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

7. Pension Expense and Deferred Inflows/Outflows

As of December 31, 2023, the deferred inflows and outflows of resources are as follows:

Deferred Inflows/ Outflows of Resources		Deferred Inflows of Resources		Deferred Outflows of Resources
Differences between expected and actual experience	\$	19 122	\$	7 977
Change of assumptions		422		23 210
Net difference between projected and actual earnings		-		15 073
Contributions made subsequent to measurement date		-		17 089
TOTAL	\$	19 544	\$	63 349

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN - CONTINUED

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

<u>YEAR ENDED DECEMBER 31,</u>		
2024	\$	(2 264)
2025	\$	1 681
2026	\$	2 877
2027	\$	14 328
2028	\$	739
Thereafter	\$	9 355

REQUIRED SUPPLEMENTARY INFORMATION

FOUR WAY SPECIAL UTILITY DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability:									
Service cost	\$ 25 232	\$ 28 825	\$ 24 130	\$ 19 070	\$ 17 911	\$ 17 527	\$ 17 734	\$ 13 718	\$ 15 342
Interest (on the total pension liability)	34 197	32 061	27 111	18 368	15 542	13 125	10 174	8 554	7 316
Changes of benefit terms	-	-	-	64 737	-	-	-	(2 953)	-
Difference between expected and actual experience	-	973	29 477	-	-	(926)	-	805	-
Change of assumptions	6 591	(20 718)	1 735	698	283	(271)	(308)	(3 141)	(4 548)
Benefit payments, including refunds of employee contributions	(19 223)	-	-	-	-	-	-	-	(1 936)
NET CHANGE IN TOTAL PENSION LIABILITY	46 797	41 141	82 453	102 873	33 736	29 455	27 600	16 983	16 174
Total pension liability - Beginning	434 168	393 027	310 574	207 701	173 965	144 510	116 910	99 927	83 753
TOTAL PENSION LIABILITY - ENDING	480 965	434 168	393 027	310 574	207 701	173 965	144 510	116 910	99 927
Plan Fiduciary Net Position:									
Contributions - Employer	21 995	14 532	14 881	13 486	12 342	11 913	11 338	10 506	10 566
Contributions - Employee	15 711	14 532	14 881	13 486	12 342	11 913	11 338	10 506	10 566
Net investment income	(30 896)	87 461	33 069	41 139	(3 999)	26 502	10 756	(2 052)	6 755
Benefit payments, including refunds of employee contributions	(19 223)	-	-	-	-	-	-	-	(1 936)
Administrative	(287)	(271)	(285)	(243)	(201)	(153)	(117)	(98)	(87)
Other	3 020	929	912	966	758	318	1 779	(12)	(6)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(9 680)	117 183	63 458	68 834	21 242	50 493	35 094	18 850	25 858
Plan fiduciary net position - Beginning	500 157	382 975	319 517	250 675	229 433	178 940	143 846	124 996	99 138
PLAN FIDUCIARY NET POSITION - ENDING	490 477	500 157	382 975	319 517	250 675	229 433	178 940	143 846	124 996
NET PENSION ASSET - ENDING	\$ (9 512)	\$ (65 989)	\$ 10 052	\$ (8 939)	\$ (42 974)	\$ (55 468)	\$ (34 431)	\$ (26 936)	\$ (25 069)
Plan fiduciary net position as a percentage of total pension liability	101.98%	115.20%	97.44%	102.88%	120.69%	131.89%	123.83%	123.04%	125.09%
Covered employee payroll	\$ 314 220	\$ 290 631	\$ 297 617	\$ 269 713	\$ 246 848	\$ 238 263	\$ 226 768	\$ 210 122	\$ 211 323
Net pension liability as a percentage of covered employee payroll	(3.03)%	(22.71)%	3.38%	(3.31)%	(17.41)%	(23.28)%	(15.18)%	(12.82)%	(11.86)%

Additional years will be provided as they become available.

FOUR WAY SPECIAL UTILITY DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEAR ENDING DECEMBER 31,	ACTUARIALLY DETERMINED CONTRIBUTION	ACTUAL EMPLOYER CONTRIBUTION	CONTRIBUTION DEFICIENCY (EXCESS)	PENSIONABLE COVERED PAYROLL	ACTUAL CONTRIBUTION AS A % OF COVERED PAYROLL
2013	\$ 7 488	\$ 9 905	\$ (2 417)	\$ 198 104	5.0%
2014	\$ 7 861	\$ 10 566	\$ (2 705)	\$ 211 323	5.0%
2015	\$ 6 220	\$ 10 506	\$ (4 286)	\$ 210 122	5.0%
2016	\$ 5 442	\$ 11 338	\$ (5 896)	\$ 226 768	5.0%
2017	\$ 3 479	\$ 11 913	\$ (8 435)	\$ 238 263	5.0%
2018	\$ 3 184	\$ 12 342	\$ (9 158)	\$ 246 848	5.0%
2019	\$ 2 481	\$ 13 486	\$ (11 005)	\$ 269 713	5.0%
2020	\$ 12 649	\$ 14 881	\$ (2 232)	\$ 297 617	5.0%
2021	\$ 12 032	\$ 14 532	\$ (2 499)	\$ 290 631	5.0%
2022	\$ 18 916	\$ 21 995	\$ (3 079)	\$ 314 220	7.0%

See independent auditor's report.

SUPPLEMENTARY INFORMATION

FOUR WAY SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULES INCLUDED WITHIN THIS REPORT
Year Ended December 31, 2023

- (X) D. Notes Required by the Water District Accounting Manual
- (X) E. TSI-1. Services and Rates
- (X) F. TSI-2. Enterprise Fund Expenses
- (X) G. TSI-3. Temporary Investments
- (X) H. TSI-4. Taxes Levied and Receivable
- (X) I. TSI-5. Long-Term Debt Service Requirements by Years
- (X) J. TSI-6. Changes in Long-Term Bonded Debt
- (X) K. TSI-7c. Comparative Schedule of Revenues and Expenses - Five Years
- (X) L. TSI-8. Board Members, Key Personnel and Consultants
- (X) M. Schedule of Budgeted Revenues and Expenses - Budget and Actual - Enterprise Fund

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES REQUIRED BY THE WATER DISTRICT ACCOUNTING MANUAL
Year Ended December 31, 2023

Schedule D

NOTE A - CREATION OF DISTRICT

See Notes to Financial Statements.

NOTE B - PLEDGE OF REVENUES

The Revenue Bonds are payable from and secured by the proceeds of the net revenues to be received from the operation of the District's waterworks system.

NOTE C - COMPLIANCE WITH DEBT SERVICE REQUIREMENTS

Deposits are being made to the bond fund as required and the bond fund is being utilized according to the provisions of the bond resolutions.

NOTE D - REDEMPTION OF BONDS

The Revenue Notes, Series 2014, are callable after June 24, 2019.

NOTE E - PENSION COVERAGE FOR DISTRICT EMPLOYEES

The District has a retirement plan with Texas County and District Retirement System (Note 5).

FOUR WAY SPECIAL UTILITY DISTRICT
TSI-1. SERVICES AND RATES
For the Year Ended December 31, 2023

Schedule E

1. The District Provides services for retail water.

2. Retail Service Providers:

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

	MINIMUM CHARGE	MINIMUM USAGE	FLAT RATE Y/N	RATE PER 1000 GALLONS OVER MINIMUM USE	USAGE LEVELS
Water	\$29.00	0	Yes	\$4.00	N/A to N/A
Wastewater	N/A				
Surcharge	N/A				

The District does not employ winter averaging for wastewater usage.

b. Water and Wastewater Retail Connections:

METER SIZE	TOTAL CONNECTIONS	ACTIVE CONNECTIONS	ESFC FACTOR	ACTIVE ESFC'S
Unmetered	-	-	x 1.0	-
5/8"	2 486	2 486	x 1.0	2 486
3/4"	9	9	x 1.5	13.5
1"	17	17	x 2.5	42.5
1 1/2"	7	7	x 5.0	35
2"	3	3	x 8.0	24
3"	-	-	x 16.0	-
4"	-	-	x 25.0	-
6"	1	1	x 50.0	50
8"	-	-	x 80.0	-
10"	-	-	x 115.0	-
TOTAL WATER	<u>2 523</u>	<u>2 523</u>		
TOTAL WASTEWATER	<u>-</u>	<u>-</u>	x 1.0	<u>-</u>

3. Total Water Consumption (In Thousands) During The Fiscal Year:

Gallons pumped into system:	176,683
Gallons billed to customers:	157,361
Water accountability ratio:	0.89 (gallons billed/gallons pumped)

4. Standby Fees:

The District does not maintain standby fees.

The District does not have Operation and Maintenance standby fees.

5. Location of District:

The District is located entirely within one county - Angelina County. The District is partially located within the City of Huntington. It is not within a city's extra territorial jurisdiction (ETJ). The City of Huntington does not have ETJ and the Board members are not appointed by any office outside the District.

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-2. ENTERPRISE FUND EXPENSES
 For the Year Ended December 31, 2023

Schedule F

Personnel expenditures (including benefits)	\$ 367 316
Professional Fees:	
Accounting and auditing services	15 670
Legal	100
Engineering	1 590
Utilities	109 610
Repairs and maintenance	275 584
Administrative Expenses:	
Office supplies and postage	26 141
Insurance	102 065
Dues and fees - Regulatory	9 775
Other administrative expenses	129 098
Depreciation expense	<u>313 286</u>
TOTAL EXPENSES	<u>\$ 1 350 235</u>

Number of persons employed by the District: Five Full-time

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-3. TEMPORARY INVESTMENTS
 For the Year Ended December 31, 2023

Schedule G

FUND	IDENTIFICATION OR CERTIFICATION NUMBER	INTEREST RATE	MATURITY DATE	BALANCE AT END OF YEAR	ACCRUED RECEIVABLE AT END OF YEAR
<u>Proprietary Fund</u>					
Certificate of Deposit	736430-0100	3.14%	09/23/2024	\$ 132 111	\$ -
Certificate of Deposit	200022997	1.40%	07/02/2024	126 980	-
Certificate of Deposit	961349	4.96%	06/09/2024	203 106	-
Certificate of Deposit	**352	4.50%	Monthly	167 082	-
Certificate of Deposit	**352	4.50%	Monthly	249 301	-
Certificate of Deposit	0160900	4.90%	05/19/2024	228 890	-
Money Market Account	736430	1.06%	-	119 553	-
Money Market Account	209175148	0.01%	-	9 073	-
Money Market Account	1807541-8	1.15%	-	5 987	-
TOTAL FUND				\$ <u>1 242 083</u>	\$ <u>-</u>

See independent auditor's report.

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-4. TAXES LEVIED AND RECEIVABLE
 Year Ended December 31, 2023

Schedule H

	DEBT SERVICE TAXES AD VALOREM TAX	SPECIAL BENEFITS TAX
Taxes receivable at beginning of year	\$ -	\$ -
2023 tax roll	-	-
Adjustments	-	-
TOTAL TO BE ACCOUNTED FOR	-	-
Tax Collections:		
Current year levy	-	-
Prior year levies	-	-
TOTAL COLLECTIONS	-	-
Taxes receivable at end of year	\$ -	\$ -

NOTE: The District neither levies nor collects taxes.

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
 December 31, 2023

Schedule I

DUE DURING FISCAL YEARS ENDING	PRINCIPAL DUE MONTHLY	INTEREST DUE MONTHLY	TOTAL
2024	\$ 150 389	\$ 1 354	\$ 151 743
2025	9 248	301	9 549
TOTAL	\$ 159 637	\$ 1 655	\$ 161 292

See independent auditor's report.

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-6. CHANGES IN LONG-TERM BONDED DEBT
 For Fiscal Year Ended December 31, 2023

Schedule J

	BOND ISSUES
	SERIES 2014
Interest Rate	3.30%
Dates Interest Payable	Monthly
Maturity Dates	04/15/2024
Beginning Bonds Outstanding	\$ 426 150
Bonds Issued During the Fiscal Year	-
Bonds Retired During the Fiscal Year	(284 640)
Bonds Refunded During the Fiscal Year	-
Ending Bonds Outstanding	\$ 141 510
Interest Paid During the Fiscal Year	\$ 9 900

Paying Agent's Name and Address:

Series 2014: Regions Equipment Finance Corporation, P. O. Box 11407, Birmingham, Alabama 35246

	TAX BONDS *	OTHER BONDS	REVENUE BONDS
Bond Authority:			
Amount authorized by voters	\$ -	\$ -	\$ 2 500 000
Amount issued	\$ -	\$ -	\$ 2 500 000
Remaining to be issued	\$ -	\$ -	\$ -

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

Debt Service Fund Cash and Temporary Investments balances as of December 31, 2023:	\$145,792
Minimum Average Balance Requirement:	\$100,000

See independent auditor's report.

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-7a. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
 Five Years Ended December 31,

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues:					
Water sales	\$ 1 478 443	\$ 1 370 057	\$ 1 293 822	\$ 1 257 526	\$ 1 225 074
Connection fees	147 312	143 284	97 048	90 172	67 935
Penalties	33 203	34 105	18 296	18 805	21 955
TOTAL OPERATING REVENUES	<u>1 658 958</u>	<u>1 547 446</u>	<u>1 409 166</u>	<u>1 366 503</u>	<u>1 314 964</u>
Operating Expenses:					
Payroll costs	367 316	341 988	315 766	389 809	301 822
Professional fees	17 360	16 108	16 702	15 824	15 590
Utilities	109 610	92 870	96 611	98 301	93 992
Repairs and maintenance	275 584	249 437	155 319	114 730	182 627
Administrative expenses	267 079	290 165	261 715	259 792	262 210
Depreciation expense	313 286	282 428	283 611	272 252	304 805
TOTAL OPERATING EXPENSES	<u>1 350 235</u>	<u>1 272 996</u>	<u>1 129 724</u>	<u>1 150 708</u>	<u>1 161 046</u>
OPERATING INCOME	<u>308 723</u>	<u>274 450</u>	<u>279 442</u>	<u>215 795</u>	<u>153 918</u>
Nonoperating Revenues (Expenses):					
Interest income	41 676	8 370	10 948	15 017	17 280
Interest expense	(7 631)	(19 253)	(28 299)	(37 157)	(45 505)
Gain (loss) on asset disposal	14 103	-	(930)	-	-
Miscellaneous income	11 780	4 082	1 520	10 153	46 486
Project reimbursements	-	-	281 006	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>59 928</u>	<u>(6 801)</u>	<u>264 245</u>	<u>(11 987)</u>	<u>18 261</u>
CHANGE IN NET POSITION	<u>\$ 368 651</u>	<u>\$ 267 649</u>	<u>\$ 543 687</u>	<u>\$ 203 808</u>	<u>\$ 172 179</u>
Total active retail water and/or wastewater connections	<u>2 298</u>	<u>2 183</u>	<u>2 203</u>	<u>2 183</u>	<u>2 138</u>

See independent auditor's report.

PERCENT OF TOTAL OPERATING REVENUE									
2023		2022		2021		2020		2019	
89.1	%	88.5	%	91.8	%	92.0	%	93.2	%
8.9		9.3		6.9		6.6		5.2	
2.0		2.2		1.3		1.4		1.7	
<u>100.0</u>		<u>100.0</u>		<u>100.0</u>		<u>100.0</u>		<u>100.0</u>	
22.2		15.5		22.7		28.5		23.0	
1.0		1.0		1.2		1.2		1.2	
6.6		6.0		6.9		7.2		7.1	
16.6		16.1		11.0		8.4		13.9	
16.1		18.8		18.6		19.0		19.9	
18.9		18.3		20.1		19.9		23.2	
<u>81.4</u>		<u>75.7</u>		<u>80.5</u>		<u>84.2</u>		<u>88.3</u>	
18.6		24.3		19.5		15.8		11.7	
2.5		0.5		0.8		1.1		1.3	
(0.5)		(1.2)		(2.0)		(2.7)		(3.5)	
0.9		-		0.1		0.7		3.5	
0.7		0.3		(0.1)		-		-	
<u>-</u>		<u>-</u>		<u>19.9</u>		<u>-</u>		<u>-</u>	
3.6		(0.4)		18.8		(0.9)		1.4	
<u>22.2</u>	%	<u>23.9</u>	%	<u>38.3</u>	%	<u>14.9</u>	%	<u>13.1</u>	%

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 December 31, 2023

District Mailing Address: P. O. Box 250, Huntington, Texas 75949-0250

District Business Telephone Number: 936.422.4188

Submission Date of the most recent District Registration Form

(TWC Section 36.054 and 49.054): May 19, 2023

Limit on Fees of Office that the Director may receive during a fiscal year: No limit set (Set by Board Resolution - TWC Section 49.060)

NAMES	TERMS OF OFFICE (ELECTED OR APPOINTED) OR DATE HIRED	FEES FYE 12/31/2023	EXPENSE REIMBURSEMENTS FYE 12/31/2023	TITLE AT YEAR END
<u>Board Members:</u>				
Roger Sanders	05/2022 - 05/2025 Elected	\$ 550	\$ -	President
Don Willis	05/2021 - 05/2024 Elected	\$ 550	\$ -	Vice-President
Judy Runnels	05/2023 - 05/2026 Elected	\$ 550	\$ -	Secretary/Treasurer
Gay Walker	05/2022 - 05/2025 Elected	\$ 550	\$ -	Director
James Kirkland	05/2021 - 05/2024 Elected	\$ 550	\$ -	Director
Barbara Innerarity	05/2023 - 05/2026 Elected	\$ 550	\$ -	Director
<u>Key Administrative Personnel:</u>				
Tommy Carswell	08/01/1990	\$ 94 575	\$ -	General Manager
<u>Consultants:</u>				
Gregory Longino	01/01/2014	\$ 100	\$ -	Attorney
Goodwin/Lasiter, Inc.	01/01/2014	\$ 18 177	\$ -	Engineer
Tom Tayloe, CPA	01/01/2014	\$ 1 670	\$ -	Accountant
Axley & Rode LLP, CPA	12/30/2015	\$ 11 000	\$ -	Auditor

See independent auditor's report on supplementary information.

FOUR WAY SPECIAL UTILITY DISTRICT
SCHEDULE OF BUDGETED (NON-GAAP BASIS) REVENUES AND EXPENSES
For the Year Ended December 31, 2023

Schedule M

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Operating Revenues:			
Water sales	\$ 1 300 008	\$ 1 478 443	\$ 178 435
Connection fees	69 804	147 312	77 508
Penalties	32 004	33 203	1 199
TOTAL OPERATING REVENUES	1 401 816	1 658 958	257 142
Operating Expenses:			
Payroll costs	389 004	367 316	21 688
Professional fees	20 004	17 360	2 644
Utilities	98 508	109 610	(11 102)
Repairs and maintenance	212 004	275 584	(63 580)
Administrative expense	298 362	267 079	31 283
Depreciation expense	285 000	313 286	(28 286)
TOTAL OPERATING EXPENSES	1 302 882	1 350 235	(47 353)
OPERATING INCOME	98 934	308 723	209 789
Non-Operating Revenues (Expenses):			
Gain on sale of assets	-	14 103	14 103
Interest income	9 996	41 676	31 680
Interest expense	(9 996)	(7 631)	2 365
Miscellaneous income	1 008	11 780	10 772
TOTAL NON-OPERATING REVENUES (EXPENSES)	1 008	59 928	58 920
CHANGE IN NET POSITION	\$ 99 942	\$ 368 651	\$ 268 709

See independent auditor's report.

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF: ANGELINA }

I _____
(Printed: Name of President, Chairman, Director or Attorney)

of the _____ FOUR WAY SPECIAL UTILITY DISTRICT _____
(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at the meeting of the District's Board of Directors on the 16th day of April, its annual report for the fiscal period ended December 31, 2023 and that copies of the annual audit report have been filed in the District's office, located at 411 N Main Street, Huntington, Texas 75949.

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

_____ ANGELINA _____
(Name of City or County where audit report is filed)

Date: _____ 20_____. _____
(Signature of District Official)

_____ _____
(Title of District Official) (Typed Name of District Official)

Sworn to and subscribed to before me this _____ day of _____, 20_____.

(Signature of Notary)

(Seal)

(Printed Name of Notary)

My Commission Expires On: _____
Notary Public in and for the State of Texas

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

Board of Directors
Four Way Special Utility District
Huntington, Texas

We have audited the financial statements of Four Way Special Utility District as of December 31, 2023. We have issued our report on the financial statements as of April 16, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 16, 2024