

FOUR WAY SPECIAL UTILITY DISTRICT
Huntington, Texas

ANNUAL FINANCIAL REPORT

December 31, 2020

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Four Way Special
Utility District

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, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards* issued by Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Four Way Special Utility District as of December 31, 2020, 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.

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.

Other 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 20, 2021 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.

Lufkin, Texas
April 20, 2021


CERTIFIED PUBLIC ACCOUNTANTS

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, 2020. 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 \$5,997,340 on December 31, 2020 as a result of the year's operations.
- The District's total assets and deferred outflows were \$7,350,109; of this amount \$5,901,095 represents capital assets and \$1,449,014 represents cash and cash equivalents, other assets and deferred outflows.
- Liabilities and deferred inflow for the District totaled \$1,352,769.
- Operating revenues for the District at year end were \$1,366,503 and exceeded operating expense by \$215,795. The major revenue sources that contributed to the District were water sales.

Financial Analysis

Net Position: The District's net position was \$5,997,340 at December 31, 2020. (See Table 1)

TABLE 1
NET POSITION

	DECEMBER 31,		TOTAL PERCENTAGE CHANGE 2020-2019
	2020	2019	
Current assets	\$ 813 786	\$ 1 070 726	(24.00)%
Restricted assets	595 146	582 836	2.11%
Capital assets	5 901 095	5 594 218	5.49%
Other assets	8 939	42 974	(79.20)%
TOTAL ASSETS	7 318 966	7 290 754	0.39%
DEFERRED OUTFLOWS	31 143	36 789	
Current liabilities	626 562	554 393	13.02%
Long-term liabilities	700 097	966 377	(27.55)%
TOTAL LIABILITIES	1 326 659	1 520 770	(12.76)%
DEFERRED INFLOWS	26 110	13 241	97.19%
TOTAL NET POSITION	\$ 5 997 340	\$ 5 793 532	3.52%

The total net position increased approximately \$204,000, which represents a combination of net operating profit of approximately \$216,000 and non-operating income of approximately \$(12,000).

The District's total revenues were approximately \$1,392,000. A significant portion, 99 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 2020-2019
	2020	2019	
Operating Revenues:			
Service revenues	\$ 1 366 503	\$ 1 314 964	3.92%
TOTAL OPERATING INCOME	<u>1 366 503</u>	<u>1 314 964</u>	3.92%
Operating Expenses:			
Payroll costs	389 809	301 822	29.15%
Professional fees	15 824	15 590	1.50%
Utilities	98 301	93 992	4.58%
Repairs and maintenance	114 730	182 627	(37.18)%
Administrative expenses	259 792	262 210	(0.92)%
Depreciation expense	272 252	304 805	(10.68)%
TOTAL OPERATING EXPENSES	<u>1 150 708</u>	<u>1 161 046</u>	(0.89)%
Operating income (loss)	<u>215 795</u>	<u>153 918</u>	(40.20)%
Non-Operating Revenue (Expense):			
Miscellaneous income	3 642	46 486	(92.17)%
Interest income	15 017	17 280	(13.10)%
Interest expense	(37 157)	(45 505)	(18.35)%
Gain on sale of asset	6 511	-	100.00%
TOTAL NON-OPERATING	<u>(11 987)</u>	<u>18 261</u>	(165.64)%
CHANGE IN NET POSITION	<u>203 808</u>	<u>172 179</u>	18.37%
Net position at beginning of year	<u>5 793 532</u>	<u>5 621 353</u>	3.06%
NET POSITION AT END OF YEAR	<u>\$ 5 997 340</u>	<u>\$ 5 793 532</u>	3.52%

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, 2020, the District had invested \$5,901,095 in capital assets consisting of the land, building, water equipment, vehicles and office equipment. Approximately \$580,366 in capital assets were purchased in 2020.

As of December 31, 2020, the District had long-term debt outstanding of \$967,678 which consisted of a revenue note. Approximately \$267,581 of the long-term debt is due within the next fiscal year. The District paid \$257,383 in principal during 2020.

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, 2020 was amended as needed and the District's net income was more than budget by \$60,822.

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
December 31, 2020

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 646 371
Accounts receivable	154 299
Prepaid insurance	13 116
TOTAL CURRENT ASSETS	813 786
Non-Current Assets:	
Restricted cash and cash equivalents	595 146
Capital Assets:	
Land and easements	205 680
Buildings, office equipment, automobiles, water distribution system, wells and plants, net	5 105 805
Construction in progress	589 610
TOTAL CAPITAL ASSETS	5 901 095
Net pension asset	8 939
TOTAL NON-CURRENT ASSETS	6 505 180
DEFERRED OUTFLOWS	
Deferred outflows - Pension	31 143
TOTAL DEFERRED OUTFLOWS	31 143
TOTAL ASSETS AND DEFERRED OUTFLOWS	7 350 109
LIABILITIES	
Current Liabilities:	
Accounts payable	64 667
Accrued well lease - Lufkin Industries	38 339
Accrued expenses	31 956
Interest payable	3 019
Deposits payable	221 000
Current portion of bond payable	267 581
TOTAL CURRENT LIABILITIES	626 562
Non-Current Liabilities:	
Bond payable	700 097
TOTAL LIABILITIES	1 326 659
DEFERRED INFLOWS	
Deferred inflows - Pension	26 110
TOTAL DEFERRED INFLOWS	26 110
TOTAL LIABILITIES AND DEFERRED INFLOWS	1 352 769
NET POSITION	
Net investment in capital assets	4 933 417
Restricted - Bond covenant	374 146
Unrestricted	689 777
TOTAL NET POSITION	\$ 5 997 340

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, 2020

Operating Revenues:	
Water sales	\$ 1 257 526
Connection fees	90 172
Penalties	18 805
TOTAL OPERATING REVENUES	<u>1 366 503</u>
Operating Expenses:	
Payroll costs	389 809
Professional fees	15 824
Utilities	98 301
Repairs and maintenance	114 730
Administrative expense	259 792
Depreciation expense	272 252
TOTAL OPERATING EXPENSES	<u>1 150 708</u>
OPERATING INCOME	<u>215 795</u>
Non-Operating Revenues (Expenses):	
Gain on sale of asset	6 511
Interest income	15 017
Interest expense	(37 157)
Miscellaneous income	3 642
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(11 987)</u>
CHANGE IN NET POSITION	203 808
Net position, beginning of year	<u>5 793 532</u>
NET POSITION, END OF YEAR	<u>\$ 5 997 340</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, 2020

Cash Flows from Operating Activities:	
Cash received from customers	\$ 1 359 583
Cash payments to suppliers for goods and services	(440 337)
Cash payments to employees for services	<u>(328 989)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>590 257</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(580 366)
Principal paid on revenue bonds	(257 383)
Interest paid on revenue bonds	(37 157)
Increase in deposits payable	<u>7 100</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(867 806)</u>
Cash Flows from Investing Activities:	
Proceeds from sale of capital assets	6 511
Interest on cash and investments	15 017
Other non-operating income	<u>3 642</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>25 170</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(252 379)
Cash and cash equivalents, beginning of year	1 493 896
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1 241 517</u>

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities

Operating income	\$ <u>215 795</u>
Adjustments to Reconcile Operating Income to Net Cash Used in Operations:	
Depreciation	272 252
Loss on disposal of fixed assets	1 237
(Increase) in accounts receivable	(6 920)
(Increase) in prepaid expenses	(829)
(Increase) in deferred outflow - Pension	5 646
(Increase) in net pension asset	34 035
(Decrease) in accounts payable	34 762
(Decrease) in retirement payable	8 270
(Decrease) in accrued well lease - Lufkin	13 140
Increase in deferred inflows - Pension	<u>12 869</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 590 257</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 20, 2021, the date the financial statements were available to be issued.

J. COVID-19:

A novel strain of coronavirus (COVID-19) was spread to the United States of America in January and February 2020. The World Health Organization declared the outbreak to constitute a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Corporation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors, all of which are uncertain and cannot be predicted. As of the date these financial statements are issued, COVID-19 had not materially affected results of operations in 2020. However, the impact of response efforts on future operations cannot be predicted.

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, 2020. Additionally, the District's investment practices were in accordance with local policies.

At December 31, 2020, the carrying amount of the District's deposits (cash, certificates of deposit and interest-bearing accounts in temporary investments) was \$1,241,517, and the bank balance was \$1,335,051.

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, 2020 by investing only in money market accounts and certificates of deposit.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

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. The total bank balance of \$1,335,051 was covered by federal depository insurance.

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.

Based on these three levels of risk, at December 31, 2020, 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	\$ 1 335 051	\$ -	\$ -	\$ 1 335 051	\$ 21 784

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, 2020, was as follows:

	BALANCE 12/31/2019	ADDITIONS	DELETIONS	TRANSFERS	BALANCE 12/31/2020
Capital Assets Not Being Depreciated:					
Land	\$ 205 680	\$ -	\$ -	\$ -	\$ 205 680
Construction in process	48 995	540 615	-	-	589 610
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	254 675	540 615	-	-	795 290
Capital Assets Being Depreciated:					
Buildings	970 513	-	-	-	970 513
Company vehicles	173 347	-	(25 862)	-	147 485
Furniture and equipment	413 242	34 256	(17 317)	-	430 181
Water system	3 434 415	5 495	-	-	3 439 910
Wells and plants	4 359 040	-	-	-	4 359 040
TOTAL CAPITAL ASSETS BEING DEPRECIATED	9 350 557	39 751	(43 179)	-	9 347 129
Allowance for depreciation	(4 011 014)	(272 249)	41 939	-	(4 241 324)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	5 339 543	(232 498)	(1 240)	-	5 105 805
TOTAL CAPITAL ASSETS, NET	\$ 5 594 218	\$ 308 117	\$ (1 240)	\$ -	\$ 5 901 095

During the year ended on December 31, 2020, the District had construction costs incurred on water line upgrades/relocation in the amount of \$540,615.

NOTE 4 - LEASE AGREEMENT

In January 1982, the District leased a well from Lufkin Industries for a term of forty years. The lease could be canceled by either party giving the other party five years prior written notice of cancellation according to the terms of agreement. On April 27, 1983, Lufkin Industries amended the contract to provide the lease may be canceled by either party giving the other party two years written notice of cancellation.

Annual rental payments under the terms of the lease are \$13,136 from 1983 to 2021 and \$6,568 for the year 2022.

If at the end of any calendar year while the lease is in force, the total paid during the calendar year by Lufkin Industries to the District for treated water exceeds the total amount paid during that calendar year by the District to Lufkin Industries for untreated water, plus the annual rental payments mentioned above, then the District is to rebate Lufkin Industries an amount of money to make the sums equal.

The District is responsible for the operation and maintenance of the leased well.

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 TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 641 nontraditional defined benefit pension plans. TCERS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCERS 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 TCERS (TCERS 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 TCERS 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 TCERS Act.

Membership Information

MEMBERS	DECEMBER 31,	
	2018	2019
Number of Inactive Employees Entitled to but Not Yet Receiving Benefits:	4	4
Number of Active Employees:	5	6
Average Monthly Salary*:	\$ 4 114	\$ 3 852
Average Age*:	41.84	40.29
Average Length of Service in Years*:	11.78	10.78

**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	8.10%
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, 2019 actuarial valuation analysis for the District. This information may also be found in the Four Way Special Utility District December 31, 2019 Summary Valuation Report.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN - CONTINUED

Economic Assumptions:

TCDRS System-Wide Economic Assumptions:

Real rate of return	5.25%
Inflation	2.75%
Long-term investment return	8.00%

The long-term investment return of 8% is net of investment expenses and is expected to enable the system to credit interest at the nominal annual rates shown below to the following major funds:

Subdivision Accumulation Fund	9%
Employees Saving Fund	7%
Current Service Annuity Reserve Fund	7%

Assuming interest will be credited at these nominal annual rates to the various funds, we have then assumed the following:

- An annual rate of 9% for calculating the actuarial accrued liability and normal cost contributions rate for the retirement plan of each participating employer.
- An annual rate of 7% required under the TCDRS Act for: (1) accumulating current service credit and multiple matching credit after the valuation date; (2) accumulating prior service credit after the valuation date; (3) determining the amount of the monthly benefit at future dates of retirement or disability; and (4) calculating the actuarial accrued liability of the system-wide Current Service Annuity Reserve Fund.

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 3.25% (made up of 2.75% 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.

FOUR WAY SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5 - PENSION PLAN - CONTINUED

Table 1
Merit Salary Increases*

Years of Service	Entry Age			
	Before 30	Ages 30-39	Ages 40-49	50 and Later
0	5.00%	4.50%	4.00%	3.50%
1	4.25%	3.75%	3.25%	2.75%
2	3.85%	3.35%	2.85%	2.35%
3	3.50%	3.00%	2.50%	2.00%
4	3.15%	2.65%	2.25%	1.85%
5	2.90%	2.55%	2.15%	1.70%
6	2.65%	2.30%	1.95%	1.55%
7	2.45%	2.10%	1.75%	1.40%
8	2.30%	1.95%	1.60%	1.25%
9	2.15%	1.80%	1.45%	1.10%
10	2.00%	1.70%	1.40%	1.05%
11	1.90%	1.60%	1.25%	1.00%
12	1.80%	1.50%	1.15%	0.95%
13	1.70%	1.40%	1.05%	0.90%
14	1.60%	1.30%	0.95%	0.85%
15	1.50%	1.23%	0.90%	0.80%
16	1.40%	1.15%	0.85%	0.75%
17	1.30%	1.05%	0.80%	0.70%
18	1.23%	0.97%	0.75%	0.65%
19	1.15%	0.90%	0.70%	0.60%
20	1.10%	0.85%	0.65%	0.55%
21	1.05%	0.80%	0.60%	0.50%
22	1.00%	0.75%	0.55%	0.50%
23	0.95%	0.70%	0.50%	0.50%
24	0.90%	0.65%	0.50%	0.50%
25	0.85%	0.60%	0.50%	0.50%
26	0.80%	0.60%	0.50%	0.50%
27	0.75%	0.60%	0.50%	0.50%
28	0.70%	0.60%	0.50%	0.50%
29	0.65%	0.60%	0.50%	0.50%
30 & Up	0.60%	0.60%	0.50%	0.50%

* These rates do not include the wage inflation rate of 3.25% 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 5.0% merit increase and the 3.25% 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	0.000%	0.000%	43	0.004%	0.058%
25	0.000%	0.000%	44	0.004%	0.063%
26	0.000%	0.000%	45	0.004%	0.069%
27	0.000%	0.000%	46	0.005%	0.076%
28	0.000%	0.008%	47	0.006%	0.084%
29	0.000%	0.008%	48	0.007%	0.095%
30	0.000%	0.009%	49	0.009%	0.109%
31	0.000%	0.010%	50	0.010%	0.125%
32	0.000%	0.010%	51	0.012%	0.142%
33	0.000%	0.011%	52	0.013%	0.162%
34	0.000%	0.014%	53	0.015%	0.183%
35	0.001%	0.018%	54	0.018%	0.203%
36	0.001%	0.022%	55	0.018%	0.222%
37	0.002%	0.028%	56	0.018%	0.238%
38	0.002%	0.033%	57	0.018%	0.250%
39	0.002%	0.038%	58	0.018%	0.259%
40	0.002%	0.042%	59	0.018%	0.270%
41	0.003%	0.047%	60 & Above	0.018%	0.000%
42	0.003%	0.053%			

* 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	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

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	Male	Female	Age	Male	Female
40-44	4.5%	4.5%	62	20.0%	20.0%
45-49	9.0%	9.0%	63	15.0%	15.0%
50	10.0%	10.0%	64	15.0%	15.0%
51	9.0%	9.0%	65	25.0%	25.0%
52	9.0%	9.0%	66	25.0%	25.0%
53	9.0%	9.0%	67	22.0%	22.0%
54	10.0%	10.0%	68	20.0%	20.0%
55	10.0%	10.0%	69	20.0%	20.0%
56	10.0%	10.0%	70	22.0%	22.0%
57	10.0%	10.0%	71	22.0%	22.0%
58	12.0%	12.0%	72	22.0%	22.0%
59	12.0%	12.0%	73	22.0%	22.0%
60	12.0%	12.0%	74**	22.0%	22.0%
61	12.0%	12.0%			

* Deferred members are assumed to retire (100% probability) at the later of:

a) age 60

b) earliest retirement eligibility.

** 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	40%
1	100%	16	38%
2	100%	17	36%
3	100%	18	33%
4	100%	19	30%
5	100%	20	28%
6	100%	21	26%
7	100%	22	24%
8	100%	23	22%
9	100%	24	20%
10	45%	25	18%
11	44%	26	16%
12	43%	27	14%
13	42%	28*	12%
14	41%	29*	10%

** 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 April 2020 information for a 10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 - December 31, 2016 for more details.

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	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	20.00%	8.20%
Global Equities	MSCI World (net) Index	2.50%	5.50%
International Equities - Developed	MSCI World Ex USA (net) Index	7.00%	5.20%
International Equities - Emerging	MSCI Emerging Markets (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays US Aggregate Bond Index	3.00%	(0.20)%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	3.14%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	6.90%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	3.00%	4.50%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.50%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	8.00%	2.30%

(1) Target asset allocation adopted at the June 2020 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80%, per Cliffwater's 2020 capital market assumptions.

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

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

(5) Includes vintage years 2007-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 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, 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 8.10%, 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 (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 364 882	\$ 310 573	\$ 265 750
Fiduciary net position	\$ 319 512	\$ 319 512	\$ 319 512
Net pension liability/(asset)	\$ 45 370	\$ (8 939)	\$ (53 762)

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, 2018	\$	207 701	\$ 250 678	\$ (42 977)
Changes for the Year:				
Service cost		19 069	-	19 069
Interest on total pension liability ⁽¹⁾		18 368	-	18 368
Effect of plan changes		64 737	-	64 737
Effect of economic/demographic gains or losses		698	-	698
Effect of assumptions changes or inputs		-	-	-
Refund of contributions		-	-	-
Benefit payments		-	-	-
Administrative expenses		-	(243)	243
Member contributions		-	13 486	(13 486)
Net investment income		-	41 139	(41 139)
Employer contributions		-	13 486	(13 486)
Other ⁽²⁾		-	966	(966)
Balances as of December 31, 2019	\$	<u>310 573</u>	\$ <u>319 512</u>	\$ <u>(8 939)</u>

(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, 2020, 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	\$	5 227	\$	1 225
Change of assumptions		674		515
Net difference between projected and actual earnings		20 209		14 522
Contributions made subsequent to measurement date		-		14 881
TOTAL	\$	<u>26 110</u>	\$	<u>31 143</u>

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:

Year Ended December 31,		
2021	\$	(1 638)
2022	\$	(2 010)
2023	\$	201
2024	\$	(4 516)
2025	\$	(570)
Thereafter	\$	(1 315)

NOTE 6 - CHANGES IN LONG-TERM DEBT

At December 31, 2019, long-term debt consisted of a bond payable to Regions Bank in the amount of \$2,500,000 dated July 1, 2014. The outstanding balance at December 31, 2020 was \$967,678 with monthly payments of \$24,545 maturing June 1, 2024. The interest rate is fixed at 3.30%.

Long-term debt activity for the District for the year ended December 31, 2019, was as follows:

	BEGINNING BALANCE	AMOUNT ISSUED	AMOUNT REDEEMED	ENDING BALANCE
Regions Bank	\$ <u>1 225 061</u>	\$ <u>-</u>	\$ <u>257 383</u>	\$ <u>967 678</u>

The annual requirement to amortize outstanding debt as of December 31, 2019 follows:

YEAR	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2021	\$ 267 581	\$ 26 959	\$ 294 540
2022	276 672	17 868	294 540
2023	286 073	8 467	294 540
2024	<u>137 352</u>	<u>685</u>	<u>138 037</u>
TOTAL	\$ <u>967 678</u>	\$ <u>53 979</u>	\$ <u>1 021 657</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	2019	2018	2017	2016	2015	2014
Total Pension Liability:						
Service cost	\$ 19 069	\$ 17 911	\$ 17 527	\$ 17 734	\$ 13 718	\$ 15 342
Interest (on the total pension liability)	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	-	-	(926)	-	805	-
Change of assumptions	698	283	(271)	(308)	(3 141)	(4 548)
Benefit payments, including refunds of employee contributions	-	-	-	-	-	(1 936)
NET CHANGE IN TOTAL PENSION LIABILITY	<u>102 872</u>	<u>33 736</u>	<u>29 455</u>	<u>27 600</u>	<u>16 983</u>	<u>16 174</u>
Total pension liability - Beginning	<u>207 701</u>	<u>173 965</u>	<u>144 510</u>	<u>116 910</u>	<u>99 927</u>	<u>83 753</u>
TOTAL PENSION LIABILITY - ENDING	<u>310 573</u>	<u>207 701</u>	<u>173 965</u>	<u>144 510</u>	<u>116 910</u>	<u>99 927</u>
Plan Fiduciary Net Position:						
Contributions - Employer	13 486	12 342	11 913	11 338	10 506	10 566
Contributions - Employee	13 486	12 342	11 913	11 338	10 506	10 566
Net investment income	41 139	(3 999)	26 502	10 756	(2 052)	6 755
Benefit payments, including refunds of employee contributions	-	-	-	-	-	(1 936)
Administrative	(243)	(201)	(153)	(117)	(98)	(87)
Other	966	758	318	1 779	(12)	(6)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	<u>68 834</u>	<u>21 242</u>	<u>50 493</u>	<u>35 094</u>	<u>18 850</u>	<u>25 858</u>
Plan fiduciary net position - Beginning	<u>250 678</u>	<u>229 433</u>	<u>178 941</u>	<u>143 846</u>	<u>124 996</u>	<u>99 138</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u>319 512</u>	<u>250 675</u>	<u>229 433</u>	<u>178 940</u>	<u>143 846</u>	<u>124 996</u>
NET PENSION ASSET - ENDING	<u>\$ (8 939)</u>	<u>\$ (42 974)</u>	<u>\$ (55 468)</u>	<u>\$ (34 431)</u>	<u>\$ (26 936)</u>	<u>\$ (25 069)</u>
Plan fiduciary net position as a percentage of total pension liability	102.88%	120.69%	131.89%	123.83%	123.04%	125.09%
Covered employee payroll	\$ 269 713	\$ 246 848	\$ 238 263	\$ 226 768	\$ 210 122	\$ 211 323
Net pension liability as a percentage of covered employee payroll	(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
2010	\$ 7 161	\$ 7 161	\$ -	\$ 175 089	4.1%
2011	\$ 7 990	\$ 7 992	\$ (2)	\$ 198 758	4.0%
2012	\$ 8 324	\$ 10 405	\$ (2 081)	\$ 208 098	5.0%
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%

See independent auditors' report.

SUPPLEMENTARY INFORMATION

FOUR WAY SPECIAL UTILITY DISTRICT
SUPPLEMENTAL SCHEDULES INCLUDED WITHIN THIS REPORT
Year Ended December 31, 2020

- (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, 2020

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, 2020

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	\$26.00	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	0	0	x 1.0	0
5/8"	2,513	2,149	x 1.0	2,018
3/4"	9	9	x 1.5	12
1"	16	16	x 2.5	32.5
1 1/2"	5	5	x 5.0	20
2"	2	2	x 8.0	16
3"	0	0	x 16.0	0
4"	1	1	x 25.0	25
6"	1	1	x 50.0	50
8"	0	0	x 80.0	0
10"	0	0	x 115.0	0
TOTAL WATER	<u>2,547</u>	<u>2,183</u>		
TOTAL WASTEWATER	<u>0</u>	<u>0</u>	x 1.0	<u>0</u>

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

Gallons pumped into system:	156,801,000
Gallons billed to customers:	135,053,000
Water accountability ratio:	0.86 (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, 2020

Schedule F

Personnel expenditures (including benefits)	\$	389 809
Professional Fees:		
Accounting and auditing services		14 745
Legal		545
Engineering		-
Other		534
Utilities		98 301
Repairs and maintenance		114 730
Administrative Expenses:		
Office supplies and postage		20 502
Insurance		80 841
Dues and fees - Regulatory		11 391
Well lease		13 140
Other administrative expenses		133 918
Depreciation expense		<u>272 252</u>
TOTAL EXPENSES	\$	<u><u>1 150 708</u></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, 2020

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%	09/23/2021	\$ 120 422	\$ -
Certificate of Deposit	200022997	1.40%	07/02/2021	125 184	-
Certificate of Deposit	43910	1.00%	12/17/2021	220 611	-
Money Market Account	736430	0.60%	-	117 060	-
Money Market Account	209175148	0.01%	-	5 427	-
Money Market Account	1807541-8	0.80%	-	<u>202 748</u>	<u>-</u>
TOTAL FUND				\$ <u>791 452</u>	\$ <u>-</u>

See independent auditors' report.

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-4. TAXES LEVIED AND RECEIVABLE
 Year Ended December 31, 2020

Schedule H

	DEBT SERVICE TAXES AD VALOREM TAX	SPECIAL BENEFITS TAX
Taxes receivable at beginning of year	\$ -	\$ -
2020 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, 2020

Schedule I

<u>DUE DURING FISCAL YEARS ENDING</u>	<u>PRINCIPAL DUE MONTHLY</u>	<u>INTEREST DUE MONTHLY</u>	<u>TOTAL</u>
2021	\$ 267 581	\$ 26 959	\$ 294 540
2022	276 672	17 868	294 540
2023	286 073	8 467	294 540
2024	137 352	685	138 037
	<u>\$ 967 678</u>	<u>\$ 53 979</u>	<u>\$ 1 021 657</u>

See independent auditors' report.

FOUR WAY SPECIAL UTILITY DISTRICT
 TSI-6. CHANGES IN LONG-TERM BONDED DEBT
 For Fiscal Year Ended December 31, 2020

Schedule J

	BOND ISSUES
	SERIES 2014
Interest Rate	3.30%
Dates Interest Payable	Monthly
Maturity Dates	04/15/2024
Beginning Bonds Outstanding	\$ 1 225 061
Bonds Issued During the Fiscal Year	-
Bonds Retired During the Fiscal Year	(257 383)
Bonds Refunded During the Fiscal Year	-
Ending Bonds Outstanding	\$ 967 678
Interest Paid During the Fiscal Year	\$ 37 157

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, 2020:	\$374,146
Minimum Average Balance Requirement:	\$100,000

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues:					
Water sales	\$ 1 257 526	\$ 1 225 074	\$ 1 204 213	\$ 1 081 611	\$ 1 062 789
Connection fees	90 172	67 935	64 983	61 174	40 149
Penalties	<u>18 805</u>	<u>21 955</u>	<u>23 290</u>	<u>22 959</u>	<u>23 300</u>
TOTAL OPERATING REVENUES	<u>1 366 503</u>	<u>1 314 964</u>	<u>1 292 486</u>	<u>1 165 744</u>	<u>1 126 238</u>
Operating Expenses:					
Payroll costs	389 809	301 822	270 958	261 240	246 224
Professional fees	15 824	15 590	14 562	15 014	16 094
Utilities	98 301	93 992	99 621	106 674	113 755
Repairs and maintenance	114 730	182 627	129 691	91 461	158 652
Administrative expenses	259 792	262 210	184 066	204 673	177 760
Depreciation expense	<u>272 252</u>	<u>304 805</u>	<u>289 071</u>	<u>267 515</u>	<u>244 127</u>
TOTAL OPERATING EXPENSES	<u>1 150 708</u>	<u>1 161 046</u>	<u>987 969</u>	<u>946 577</u>	<u>956 612</u>
OPERATING INCOME	<u>215 795</u>	<u>153 918</u>	<u>304 517</u>	<u>219 167</u>	<u>169 626</u>
Nonoperating Revenues (Expenses):					
Interest income	15 017	17 280	12 821	8 666	8 467
Interest expense	(37 157)	(45 505)	(58 617)	(56 673)	(66 496)
Miscellaneous income	<u>10 153</u>	<u>46 486</u>	<u>140 572</u>	<u>2 144</u>	<u>847</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(11 987)</u>	<u>18 261</u>	<u>94 776</u>	<u>(45 863)</u>	<u>(57 182)</u>
CHANGE IN NET POSITION	\$ <u>203 808</u>	\$ <u>172 179</u>	\$ <u>399 293</u>	\$ <u>173 304</u>	\$ <u>112 444</u>
Total active retail water and/or wastewater connections	<u>2 183</u>	<u>2 138</u>	<u>2 140</u>	<u>2 122</u>	<u>2 099</u>

See independent auditors' report.

PERCENT OF TOTAL OPERATING REVENUE									
2020		2019		2018		2017		2016	
92.0	%	93.2	%	93.2	%	92.8	%	94.4	%
6.6		5.2		5.0		5.2		3.6	
1.4		1.7		1.8		2.0		2.1	
<u>100.0</u>		<u>100.0</u>		<u>100.0</u>		<u>100.0</u>		<u>100.0</u>	
28.5		23.0		21.0		22.4		21.9	
1.2		1.2		1.1		1.3		1.4	
7.2		7.1		7.7		9.2		10.1	
8.4		13.9		10.0		7.8		14.1	
19.0		19.9		14.2		17.6		15.8	
<u>19.9</u>		<u>23.2</u>		<u>22.4</u>		<u>22.9</u>		<u>21.7</u>	
<u>84.2</u>		<u>88.3</u>		<u>76.4</u>		<u>81.2</u>		<u>84.9</u>	
<u>15.8</u>		<u>11.7</u>		<u>23.6</u>		<u>18.8</u>		<u>15.1</u>	
1.1		1.3		1.0		0.7		0.8	
(2.7)		(3.5)		(4.5)		(4.9)		(5.9)	
<u>0.7</u>		<u>3.5</u>		<u>10.9</u>		<u>0.2</u>		<u>0.1</u>	
<u>(0.9)</u>		<u>1.4</u>		<u>7.4</u>		<u>(3.9)</u>		<u>(5.1)</u>	
<u>14.9</u>	%	<u>13.1</u>	%	<u>31.0</u>	%	<u>14.9</u>	%	<u>10.0</u>	%

FOUR WAY SPECIAL UTILITY DISTRICT
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
December 31, 2020

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 7, 2018

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 12/31/2020	EXPENSE REIMBURSEMENTS FYE 12/31/2020	TITLE AT YEAR END
<u>Board Members:</u>				
Roger Sanders	05/2019 - 05/2022 Elected	\$ 550	\$ -	President
Don Willis	05/2018 - 05/2021 Elected	\$ 500	\$ -	Vice-President
Judy Runnels	05/2020 - 05/2023 Elected	\$ 500	\$ -	Secretary/Treasurer
Gay Walker	05/2019 - 05/2022 Elected	\$ 400	\$ -	Director
Barbara Interarity	05/2018 - 05/2021 Appointed	\$ 550	\$ -	Director
James Kirkland	05/2018 - 05/2021 Elected	\$ 550	\$ -	Director
<u>Key Administrative Personnel:</u>				
Tommy Carswell	08/01/1990	\$ 86 063	\$ -	General Manager
<u>Consultants:</u>				
Gregory Longino	01/01/2014	\$ 545	\$ -	Attorney
Goodwin/Lasiter, Inc.	01/01/2014	\$ -	\$ -	Engineer
Tom Tayloe, CPA	01/01/2014	\$ 4 869	\$ -	Accountant
Axley & Rode LLP, CPA	12/30/2015	\$ 9 750	\$ -	Auditor

See independent auditors' report on supplementary information.

FOUR WAY SPECIAL UTILITY DISTRICT
SCHEDULE OF BUDGETED (NON-GAAP BASIS) REVENUES AND EXPENSES
For the Year Ended December 31, 2020

Schedule M

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Operating Revenues:			
Water sales	\$ 1 203 996	\$ 1 257 526	\$ 53 530
Connection fees	62 496	90 172	27 676
Penalties	21 996	18 805	(3 191)
TOTAL OPERATING REVENUES	1 288 488	1 366 503	78 015
Operating Expenses:			
Payroll costs	340 116	389 809	(49 693)
Professional fees	20 004	15 824	4 180
Utilities	106 992	98 301	8 691
Repairs and maintenance	168 000	114 730	53 270
Administrative expense	190 176	259 792	(69 616)
Depreciation expense	300 000	272 252	27 748
TOTAL OPERATING EXPENSES	1 125 288	1 150 708	(25 420)
OPERATING INCOME	163 200	215 795	52 595
Non-Operating Revenues (Expenses):			
Gain on sale of asset	-	6 511	6 511
Interest income	15 000	15 017	17
Interest expense	(35 856)	(37 157)	(1 301)
Miscellaneous income	642	3 642	3 000
TOTAL NON-OPERATING REVENUES (EXPENSES)	(20 214)	(11 987)	8 227
CHANGE IN NET POSITION	\$ 142 986	\$ 203 808	\$ 60 822

See independent auditors' 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 20th day of April 2021, its annual report for the fiscal period ended December 31, 2020 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 AUDITORS' 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, 2020. We have issued our report on the financial statements as of April 20, 2021. 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.

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.

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.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 20, 2021