

SEIS LAGOS UTILITY DISTRICT

**Financial Statements
(With Auditor's Report Thereon)**

September 30, 2022

SEIS LAGOS UTILITY DISTRICT
Annual Financial Report
For the Year Ended September 30, 2022

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Seis Lagos Utility District's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Seis Lagos Utility District's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Seis Lagos Utility District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Seis Lagos Utility District can be divided into two categories: governmental funds (General Fund) and proprietary funds (Water and Sewer Fund).

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Seis Lagos Utility District maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund.

The Seis Lagos Utility District adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary funds. The Seis Lagos Utility District maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Seis Lagos Utility District uses enterprise funds to account for its Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Seis Lagos Utility District Water and Sewer Fund operations.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-40 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Seis Lagos Utility District, assets exceed liabilities by \$6,176,046 at the close of the most recent fiscal year.

SEIS LAGOS UTILITY DISTRICT - Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenues:						
Program revenues:						
Charges for services	\$ 488,552	440,289	1,721,296	1,248,002	2,209,848	1,688,291
General revenues:						
Property taxes	798,114	749,978			798,114	749,978
Other	<u>42,036</u>	<u>1,906</u>	<u>1,400,000</u>	<u>50</u>	<u>1,442,036</u>	<u>1,956</u>
Total revenues	1,328,702	1,192,173	3,121,296	1,248,052	4,449,998	2,440,225
Expenses:						
General government	448,151	310,567			437,881	320,837
Public safety	453,230	442,705			453,230	442,705
Public works	44,514	75,968			44,514	75,968
Interest	1,094	1,341	116,460	128,778	117,554	130,119
Water & sewer			<u>1,286,671</u>	<u>1,067,317</u>	<u>1,286,671</u>	<u>1,067,317</u>
Total expenses	946,989	830,581	1,403,131	1,196,095	2,350,120	2,026,676
Increase in net position before other transfers	381,713	361,592	1,718,165	51,957	2,110,148	413,549
Transfers						
Increase/(decrease) in net position	381,713	361,592	1,718,165	51,957	2,110,148	413,549
Net position - beginning	<u>2,157,125</u>	<u>1,795,533</u>	<u>1,919,043</u>	<u>1,864,881</u>	<u>4,076,168</u>	<u>3,660,414</u>
Net position - ending	\$ <u>2,538,838</u>	<u>2,157,125</u>	<u>3,637,208</u>	<u>1,916,838</u>	<u>6,176,046</u>	<u>4,073,963</u>

Economic Factors and Next Year's Budgets and Rates

The 2023 total budgeted revenues are projected to rise approximately 1.9% and total budgeted expenses are projected to rise 3.5%. There is significant new development in the district which supports a favorable economic outlook. For the upcoming 2023 fiscal year, the district has approved a 21% - 36% increase in residential water rates depending on monthly usage with no change in the base rate, a 38% increase in sewer rates, and a 27% increase in the fire protection rate.

Request for information

This financial report is designed to provide a general overview of the Seis Lagos Utility District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 2730 Country Club Drive, Suite E1, Lucas, TX 75002.

SEIS LAGOS UTILITY DISTRICT

Statement of Net Position

September 30, 2022

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents - unrestricted	\$ 1,955,514	4,459,100	6,414,614
Cash and equivalents - restricted		306,385	306,385
Prepaid expenses	489,812		489,812
Security deposit	1,500		1,500
Receivables (Net of allowance for uncollectibles):			
Property taxes	2,155		2,155
Accounts receivable		175,681	175,681
Capital assets (net of accumulated depreciation):			
Land		21,684	21,684
Infrastructure	76,989	2,712,274	2,789,263
Vehicles and equipment	7,134	50,073	57,207
Total capital assets	84,123	2,784,031	2,868,154
Net pension asset	3,655		3,655
Total assets	<u>2,536,759</u>	<u>7,725,197</u>	<u>10,261,956</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	<u>15,571</u>		<u>15,571</u>
Total deferred outflows of resources	<u>15,571</u>		<u>15,571</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2,552,330</u>	<u>7,725,197</u>	<u>10,277,527</u>
LIABILITIES			
Current assets:			
Deposits payable		216,800	216,800
Other payables	7,370	31,189	38,559
Noncurrent liabilities:			
Bonds/notes payable:			
Due within one year	3,920	120,000	123,920
Due in more than one year		<u>3,720,000</u>	<u>3,720,000</u>
Total liabilities	<u>11,290</u>	<u>4,087,989</u>	<u>4,099,279</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>2,202</u>		<u>2,202</u>
Total deferred inflows of resources	<u>2,202</u>		<u>2,202</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>13,492</u>	<u>4,087,989</u>	<u>4,101,481</u>
NET POSITION			
Invested in capital assets, net of related debt	80,203	(1,055,969)	(975,766)
Restricted		306,385	306,385
Unrestricted	<u>2,458,635</u>	<u>4,386,792</u>	<u>6,845,427</u>
TOTAL NET POSITION	<u>\$ 2,538,838</u>	<u>3,637,208</u>	<u>6,176,046</u>

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

<u>Net (Expense) Revenue and</u> <u>Changes in Net Position</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
40,401		40,401
(453,230)		(453,230)
(44,514)		(44,514)
<u>(1,094)</u>		<u>(1,094)</u>
<u>(458,437)</u>		<u>(458,437)</u>
	434,725	434,725
	<u>(116,460)</u>	<u>(116,460)</u>
	<u>318,165</u>	<u>318,165</u>
		<u>(140,272)</u>
798,114		798,114
42,036		42,036
	<u>1,400,000</u>	<u>1,400,000</u>
<u>840,150</u>	<u>1,400,000</u>	<u>2,240,150</u>
381,713	1,718,165	2,099,878
<u>2,157,125</u>	<u>1,919,043</u>	<u>4,076,168</u>
<u>\$ 2,538,838</u>	<u>3,637,208</u>	<u>6,176,046</u>

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

SEIS LAGOS UTILITY DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2022

Total Fund Balances - Governmental Funds \$ 2,439,456

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$2,503,205 and the accumulated depreciation was \$(2,396,028). In addition, long-term liabilities of \$(3,920), and the net pension liability / (asset) of \$3,655 are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) ,long-term debt and the net pension liability / asset in the governmental activities is to increase net assets. 106,912

Deferred Inflows and Outflows are not recognized as current period revenues, therefore the net effect of including them in the governmental activities is to increase net assets. 13,369

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the current year debt principal payments is to increase net assets. There were no capital expenditures in 2022.

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (23,054)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing \$2,155 of deferred revenue as revenue. 2,155

Net Position of Governmental Activities **\$ 2,538,838**

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

SEIS LAGOS UTILITY DISTRICT
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
September 30, 2022

Total Net Change in Fund Balances - Governmental Funds	\$ 382,532
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Current year capital outlays and long-term debt principal payments of \$14,273 are expenditures and sources in the fund financial statements, but they should be shown as reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net position.	14,273
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Deferred Inflows and Outflows and net pension liabilities are not recognized in the governmental activities. The effect is to increase net assets.	6,754
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Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. Depreciation of \$(23,054) is not recognized as an expense in governmental funds since they do not require the use of current resources. The net effect of the current year's activity is to decrease net position.	(23,054)
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Deferred revenue is not recognized as revenue in the governmental activities. The net effect is to increase net position.	1,208
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Changes in Net Position of Governmental Activities	\$ <u>381,713</u>
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The notes to the financial statements are an integral part of this statement.

SEIS LAGOS UTILITY DISTRICT

Statement of Net Position

Proprietary Funds

September 30, 2022

	<u>Proprietary Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents - unrestricted	\$ 4,459,100
Cash and cash equivalents - restricted	306,385
Accounts receivable (net of allowance for uncollectibles)	<u>175,681</u>
Total current assets	<u>4,941,166</u>
Noncurrent assets:	
Capital assets:	
Land	21,684
Equipment	121,432
Water and sewer infrastructure	5,695,016
Less: Accumulated depreciation	<u>(3,054,101)</u>
Total noncurrent assets	<u>2,784,031</u>
Total assets	<u>\$ 7,725,197</u>
LIABILITIES	
Current liabilities:	
Customer deposits	\$ 216,800
Other payables	<u>31,189</u>
Total current liabilities	<u>247,989</u>
Long-term liabilities:	
Bonds payable	
Due within one year	120,000
Due in more than one year	<u>3,720,000</u>
Total long-term liabilities	<u>3,840,000</u>
Total liabilities	<u>4,087,989</u>
NET POSITION	
Invested in capital assets, net of related debt	(1,055,969)
Restricted	306,385
Unrestricted (as restated)	<u>4,386,792</u>
Total net position	<u>\$ 3,637,208</u>

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

SEIS LAGOS UTILITY DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2022

	Proprietary Utility Fund
Cash flows from operating activities:	
Cash received from customers and users	\$ 1,696,326
Cash payments to suppliers	<u>(1,577,318)</u>
Net cash provided by operating activities	<u>119,008</u>
Cash flows from capital and related financing activities:	
Acquisition/disposition of capital assets	<u>1,560,992</u>
Net cash used by capital and related financing activities	<u>1,560,992</u>
Cash flows from noncapital financing activities:	
Bond repayments	(120,000)
Interest expense	<u>(116,460)</u>
Net cash used by noncapital financing activities	<u>(236,460)</u>
Net increase in cash and cash equivalents	1,443,540
Cash and cash equivalents - beginning (as restated)	<u>3,321,945</u>
Cash and cash equivalents - ending	\$ <u><u>4,765,485</u></u>

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

Operating income	\$ 434,625
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	196,432
(Increase)/decrease in accounts receivable	(15,120)
Increase/(decrease) in accounts payable	(347,349)
Increase/(decrease) in retainage payable	(74,270)
Increase/(decrease) in customer deposits	(9,850)
Increase/(decrease) in other payables	<u>(65,460)</u>
Total adjustments	<u>(315,617)</u>
Net cash provided by operating activities	\$ <u><u>119,008</u></u>

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

SEIS LAGOS UTILITY DISTRICT

Notes to the Financial Statements

September 30, 2022

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Thus, the expense and related accrued liability for long-term portions of debt, compensated absences, pension and other post-employment benefits (OPEB) are included. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Deferred inflows of resources arise in the governmental funds' balance sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. These deferred inflows of resources consist primarily of uncollected property taxes and municipal court fines, and grant revenues not deemed available to finance operations of the current period. In the governmentwide Statement of Activities, with a full accrual basis of accounting, revenue is recognized as soon as it is earned regardless of its availability.

Deferred outflows of resources arise in the statement of activities when consumption of resources that results in either a net decrease in assets or a net increase in liabilities are related to a future period. In the government-wide Statement of Net Position, deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB amounts are recognized.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the basic financial statements.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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SEIS LAGOS UTILITY DISTRICT

Notes to the Financial Statements

September 30, 2022

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. **Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position**

1. **Deposits**

Cash and cash equivalents includes cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. The Districts temporary investment in TexStar is considered to be cash because of it's liquidity.

2. **Short-term Inter-fund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. **Restricted Assets**

Certain resources set aside for customer deposits are classified as restricted assets on the balance sheet because their use is limited.

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SEIS LAGOS UTILITY DISTRICT

Notes to the Financial Statements

September 30, 2022

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

6. Pension Liability and other Post-Employment benefits

Plan Description

Seis Lagos Utility District participates in the Texas County & District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system. All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The plan provides retirement, disability and survivor benefits. TCDRS is a savings-based plan. For the district's plan, 5% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 150%) and is then converted to an annuity. There are no automatic COLAs. Each year, the district may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation. Benefit terms are established under the TCDRS Act. They may be amended as of Jan. 1 each year, but must remain in conformity with the Act. The district's contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The Seis Lagos Utility District contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The employee contribution rates are set by the district and are currently 5%. Contributions to the pension plan from the district for 2021 are shown in the Schedule of Employer Contributions. The most recent annual comprehensive financial report for TCDRS can be found at the following link, [TCDRS.org/Employer](https://www.tcdrs.org/Employer).

In government-wide financial statements, pensions and other post-employment benefits (OPEB) are required to be recognized and disclosed using the accrual basis of accounting regardless of the amount recognized as pension and other post-employment expenses on the modified accrual basis of accounting. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCDRS' fiduciary net position have been determined on the same basis as they are reported by TCDRS.

The OPEB liability for the District is determined by an actuarial valuation as of the valuation date based on the discount rate and assumptions present below. The plan measures the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB expense on an accrual basis.

	<u>2020</u>	<u>2021</u>
Discount rate of	7.60%	7.60%
Long-term expected rate of return, net of investment expense	7.60%	7.60%

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SEIS LAGOS UTILITY DISTRICT

Notes to the Financial Statements

September 30, 2022

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

6. Pension Liability and other Post-Employment benefits (continued)

As of December 31, 2021 valuation And measurement date, the following employees were covered by the benefit terms:

<u>Members</u>	<u>12/31/20</u>	<u>12/31/21</u>
Number of inactive employees entitled to but not yet receiving benefits:	0	2
Number of active employees:	6	6
Average monthly salary:	\$ 3,637	\$ 4,520
Average age:	44.04	42.30
Average length of service in years:	6.21	8.24

Average is reported for active employees.

Other Key Actuarial Assumptions

The demographic assumptions were developed from an actuarial experience investigation of TCDRS over the years 2017-2020. They were recommended by Milliman and adopted by the TCDRS Board of Trustees in December of 2021. All economic assumptions were recommended by Milliman and adopted by the TCDRS Board of Trustees in March of 2021. These assumptions, except where required to be different by GASB 68, are used to determine the total pension liability as of December 31, 2021. The assumptions are reviewed annually for continued compliance with the relevant actuarial standards of practice. See Appendix B and C of the GASB 68 report (Actuarial Methods and Assumptions Used for GASB Calculations) for a listing of key assumptions used in the calculation of the total pension liability and other GASB 68 metrics.

	<u>Beginning Date</u>	<u>Ending Date</u>
Valuation date	December 31, 2020	December 31, 2021
Measurement date	December 31, 2020	December 31, 2021
Employer's fiscal year	October 1, 2021	September 30, 2022

-continued-

SEIS LAGOS UTILITY DISTRICT

Notes to the Financial Statements

September 30, 2022

-continued-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

7. Fund Equity(continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

As of September 30, 2022, fund balances are composed of the following:

	General <u>Fund</u>	Total Governmental <u>Funds</u>
Nonspendable:	\$ 491,312	491,312
Restricted:		
Committed:		
Assigned:		
Unassigned:	<u>1,948,144</u>	<u>1,948,144</u>
Total fund balances	\$ <u>2,439,456</u>	<u>2,439,456</u>

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund and water and sewer fund. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to September 1, the District Board prepares a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted by the District Board through passage of an ordinance prior to the beginning of the fiscal year to which it applies, which can be amended by the Board.

-continued-

SEIS LAGOS UTILITY DISTRICT

Notes to the Financial Statements

September 30, 2022

-continued-

(3) DETAILED NOTES ON ALL FUNDS

A. **Deposits and Investments**(continued)

- c. *Credit Risk* - This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk.
- d. *Interest Rate Risk* - This is the risk that changes in interest rates will adversely affect the fair value of an investment.
- e. *Foreign Currency Risk* - This is the risk that exchange rates will adversely affect the fair value of an investment. The District is not exposed to foreign currency risk.
- f. *Concentration of Credit Risk* - This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer.

(3) DETAILED NOTES ON ALL FUNDS

B. **Receivables**

Receivables at September 30, 2022 consisted of the following:

	General <u>Fund</u>	Water and Sewer <u>Fund</u>	<u>Total</u>
Property taxes	\$ 2,155		2,155
Accounts receivable		175,681	175,681
Total receivables	\$ <u>2,155</u>	<u>175,681</u>	<u>177,836</u>

Property taxes are based on the appraised values provided by the Collin County Appraisal District. Taxes are levied by October 1 of each year. Unpaid property taxes become delinquent on February 1 of the following year. Penalty is calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increase 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the District.

Property taxes are due in full on October 1 and there are no discounts granted. The assessed value as of January 1, 2021, upon which the 2021/2022 levy was based, was approximately \$329,778,772. The tax rate for fiscal year 2021/2022 was \$0.280789 per \$100 of assessed valuation, with \$0.274880 per \$100 of assessed valuation allocated to maintenance and operation (M&O), and \$0.005909 allocated to debt service (I&S).

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SEIS LAGOS UTILITY DISTRICT

Notes to the Financial Statements

September 30, 2022

-continued-

(3) DETAILED NOTES ON ALL FUNDS (continued)

D. Long-term Debt

Notes Payable

On May 4, 2018, the District entered into a finance agreement with American Bank of Texas for the purchase of a 2018 Dodge Ram 1500. The term of the note is sixty months with an interest rate of 4.99%, with monthly payments of \$499. The annual debt service requirements for governmental activities are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	<u>3,920</u>	<u>75</u>	<u>3,995</u>
Total	3,920	75	3,995

Bonds Payable

In October 2007, the District authorized the issuance of up to \$1,360,000 of Seis Lagos Utility District Utility System Revenue Bonds, Series 2007 (the "Bonds"). The Bonds bear interest ranging from 2.55% to 3.40% payable on March 1 and September 1 of each year through March 1, 2027. The bond indenture provides that the net revenues of the system, with the exception of those in excess of the amounts required to establish and maintain the special funds created for the payment and security of the bonds similarly secured, are hereby pledged to the payment of the bonds. The bond indenture also provides that a required reserve fund in the amount of \$93,167 will be created solely for the purpose of payment of the bonds.

In April 2020, the District authorized the issuance of up to \$3,475,000 of Seis Lagos Utility District Utility System Revenue Bonds, Series 2020 (the "Bonds"). The Bonds bear interest ranging from 2.50% to 4.000% payable on March 1 and September 1 of each year through September 1, 2045. The bond indenture provides that the net revenues of the system, with the exception of those in excess of the amounts required to establish and maintain the special funds created for the payment and security of the bonds similarly secured, are hereby pledged to the payment of the bonds. The bond indenture also provides that a required reserve fund in the amount of \$224,309 will be created solely for the purpose of payment of the bonds. The District is to deposit \$1991.83 per month into the existing reserve fund in order to reach the required balance by May 2025.

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SEIS LAGOS UTILITY DISTRICT

Notes to the Financial Statements

September 30, 2022

-continued-

(4) OPERATING LEASES

The District contract has expired effective January 17, 2022 for office copier equipment. Future lease payments under these agreements are as follows with monthly payments of \$325 for the copier on a month-to-month basis.

<u>Year Ending</u> <u>September 30,</u>	<u>Texas Henderson, LLC</u>
2023	22,800
2024	<u>7,600</u>
Total	<u>\$ 30,400</u>

The District leased its office space under a non-cancelable operating lease. The lease calls for monthly payments of \$1,900 through January 31, 2024 which includes base rent and common area maintenance charges. Base rent expense for the District's office totaled approximately \$28,400 for 2022.

(5) OTHER INFORMATION

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The District pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There were no significant reduction in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

(6) RESTATEMENT OF NET POSITION

Net position has been restated at September 30, 2021 to adjust beginning cash in the water and sewer fund and to record beginning pension balances

	<u>As Originally</u> <u>Reported</u>	<u>Restatement</u>	<u>As Restated</u>
Governmental activities	2,146,855	10,270	2,157,125
Business-type activities	<u>1,916,838</u>	<u>2,205</u>	<u>1,919,043</u>
Total net assets	<u>\$ 4,063,693</u>	<u>12,475</u>	<u>4,076,168</u>

(7) EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 13, 2023, the date which the financial statements were available to be issued.

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SEIS LAGOS UTILITY DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Net Position

Budget and Actual Proprietary Fund

For the Fiscal Year Ended September 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Water sales, fees and service charges	\$ 1,116,236	1,116,236	1,719,436	603,200
Other income			<u>1,860</u>	<u>1,860</u>
Total operating revenues	<u>1,116,236</u>	<u>1,116,236</u>	<u>1,721,296</u>	<u>605,060</u>
OPERATING EXPENSES				
Cost of water	808,635	808,635	574,836	233,799
Water and sewer operations	268,925	268,925	515,403	(246,478)
Depreciation			<u>196,432</u>	<u>(196,432)</u>
Total operating expenses	<u>1,077,560</u>	<u>1,077,560</u>	<u>1,286,671</u>	<u>(209,111)</u>
Operating income (loss)	<u>38,676</u>	<u>38,676</u>	<u>434,625</u>	<u>395,949</u>
NONOPERATING REVENUE (EXPENSE)				
Proceeds from sale of CCN			1,400,000	1,400,000
Interest expense	<u>(99,200)</u>	<u>(99,200)</u>	<u>(116,460)</u>	<u>(17,260)</u>
Total nonoperating revenue (expense)	<u>(99,200)</u>	<u>(99,200)</u>	<u>1,283,540</u>	<u>1,382,740</u>
Change in net position	(60,524)	(60,524)	1,718,165	1,778,689
Net position - beginning (as restated)	<u>1,919,043</u>	<u>1,919,043</u>	<u>1,919,043</u>	
Net position - ending	\$ <u>1,858,519</u>	<u>1,858,519</u>	<u>3,637,208</u>	<u>1,778,689</u>

SEIS LAGOS UTILITY DISTRICT
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios
For the Ten Years Ended September 30, 2022

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Pension Liability					
Service cost	\$ N/A	N/A	N/A	N/A	N/A
Interest on total pension liability	N/A	N/A	N/A	N/A	N/A
Effect on plan changes	N/A	N/A	N/A	N/A	N/A
Effect on economic/demographic gains or losses	N/A	N/A	N/A	N/A	N/A
Effect on assumptions changes or inputs	N/A	N/A	N/A	N/A	N/A
Refund of contributions	N/A	N/A	N/A	N/A	N/A
Benefit payments	N/A	N/A	N/A	N/A	N/A
Total pension liability	\$ <u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Fiduciary Net Position					
Administrative expenses	N/A	N/A	N/A	N/A	N/A
Member contributions	N/A	N/A	N/A	N/A	N/A
Net investment income	N/A	N/A	N/A	N/A	N/A
Employer contributions	N/A	N/A	N/A	N/A	N/A
Other	<u>N/A</u>	N/A	N/A	N/A	N/A
Fiduciary net position	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Net Pension Liability/(Asset)	\$ <u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>
Fiduciary net position as a % of total pension liability	N/A	N/A	N/A	N/A	N/A
Pensionable covered payroll	N/A	N/A	N/A	N/A	N/A
NPL/(asset) as a % of covered payroll	N/A	N/A	N/A	N/A	N/A

TXAS SUPPLEMENTAL SCHEDULES

SEIS LAGOS UTILITY DISTRICT
Services and Rates
For The Year Ended September 30, 2022
-continued-

4. District has Standby Fees:

Debt Service: No

Operations and Maintenance: No

5. Location of District:

County(ies) in which District is located.

Collin

Is the District located entirely within one county?

Yes

Is the District located within a city?

No

City(ies) in which District is located.

N/A

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Yes

ETJ's in which District is located.

Lucas, TX

Is the general membership of the Board appointed by an office outside the District?

No

If Yes, by whom?

N/A

SEIS LAGOS UTILITY DISTRICT
Schedule of Temporary Investments
For the Year Ended September 30, 2022

<u>Fund</u>	Identification or Certificate Number	Interest Rate	Maturity Date	Balance At End of Year	Accrued Interest Receivable at End of Year
General Fund					
Money Market	1110	2.2941%	N/A	\$ 6,392,862	\$ -
Debt Service Fund					
Money Market	8440	2.2941%	N/A	36,433	-
Money Market	2330	2.2941%	N/A	<u>177,952</u>	<u>-</u>
Total				\$ <u>6,607,247</u>	\$ <u>-</u>

SEIS LAGOS UTILITY DISTRICT
Long-Term Debt Service Requirements by Years
For the Year Ended September 30, 2022

<u>Due During Year Ending</u>	<u>Annual Requirements for All Series</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	120,000	112,158	232,158
2024	125,000	107,848	232,848
2025	130,000	103,433	233,433
2026	135,000	98,710	233,710
2027	140,000	94,135	234,135
2028	140,000	90,375	230,375
2029	145,000	86,875	231,875
2030	150,000	83,250	233,250
2031	150,000	79,500	229,500
2032	155,000	75,750	230,750
2033	160,000	71,875	231,875
2034	165,000	67,875	232,875
2035	170,000	63,750	233,750
2036	175,000	58,650	233,650
2037	175,000	53,400	228,400
2038	180,000	48,150	228,150
2039	185,000	42,750	227,750
2040	190,000	37,200	227,200
2041	200,000	31,500	231,500
2042	205,000	25,500	230,500
2043	210,000	19,350	229,350
2044	215,000	13,050	228,050
2045	<u>220,000</u>	<u>6,600</u>	<u>226,600</u>
Total	<u>\$ 3,840,000</u>	<u>1,471,684</u>	<u>5,311,684</u>

SEIS LAGOS UTILITY DISTRICT
Changes in Long-Term Bonded Debt
For the Year Ended September 30, 2022

Bond Issues:	<u>Series 2020</u>	<u>Total</u>
Interest Rate	2.50% - 4.00%	
Date Interest Payable	3/1, 9/1	
Maturity Dates	September 1, 2045	
Bonds Outstanding at Beginning of Current Year	\$ 3,440,000	3,440,000
Bonds Sold During Current Year		
Retirements: Principle	<u>(40,000)</u>	<u>(40,000)</u>
Bonds Outstanding at End of Current Year	<u>3,400,000</u>	<u>3,400,000</u>
Interest Paid During the Fiscal Year	\$ 100,375	
Paying Agent's Name and Address:		
	BOK Financial, NA 5956 Sherry Lane, Suite 1201 Dallas, TX 75225 (Series 2007)	
Bond Authority:		
Amount Authorized	\$ 3,475,000	
Amount Issued	\$ 3,475,000	
Debt service reserve balance as of September 30, 2022:	\$ 89,952	
Average annual debt service payments for remaining term:	\$ 147,826	

SEIS LAGOS UTILITY DISTRICT
Comparative Schedule of Revenues and Expenses - Enterprise Fund
For the Five Years Ended September 30, 2022

	<u>Amounts</u>				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues:					
Water and sewer services	\$ 1,449,806	1,131,150	1,212,911	1,016,983	1,196,243
Customer charges/fees	269,630	116,852	85,890	178,430	137,792
Other revenue	<u>1,860</u>	<u>50</u>	<u>915</u>	<u>108,935</u>	<u>22,512</u>
Total operating revenues	<u>1,721,296</u>	<u>1,248,052</u>	<u>1,299,716</u>	<u>1,304,348</u>	<u>1,356,547</u>
Operating expenses:					
Water and sewer operations	1,074,111	875,622	889,619	852,836	856,646
Contracted services	16,128		8,005	233,571	168,540
Other operating expenses	<u>196,432</u>	<u>191,695</u>	<u>198,068</u>	<u>197,045</u>	<u>185,632</u>
Total operating expenses	<u>1,286,671</u>	<u>1,067,317</u>	<u>1,095,692</u>	<u>1,283,452</u>	<u>1,210,818</u>
Operating income	<u>434,625</u>	<u>180,735</u>	<u>204,024</u>	<u>20,896</u>	<u>145,729</u>
Non-operating revenue (expenses):					
Proceeds from sale of CCN	1,400,000				
Interest revenue	(116,460)		14,072	12,869	11,395
Interest expense		(128,778)	(59,437)	(22,786)	(25,873)
Bond issuance cost			<u>(246,888)</u>		
Total non-operating revenue (expense)	<u>1,283,540</u>	<u>(128,778)</u>	<u>(292,253)</u>	<u>(9,917)</u>	<u>(14,478)</u>
Net income	<u>\$ 1,718,165</u>	<u>51,957</u>	<u>(88,229)</u>	<u>10,979</u>	<u>131,251</u>

SEIS LAGOS UTILITY DISTRICT
Board of Directors
For the Year Ended September 30, 2022

Seis Lagos Utility District
2730 Country Club Drive
Suite E1
Lucas, TX 75002

District business telephone number: 972-442-6875

Submission Date of the most recent District Registration Form: November 21, 2019
(TWC Sections 36.054 and 49.054)

Limit on Fees of Office that a Director may receive during a fiscal year: \$600 per year
(Set by Board Resolution-TWC Section 49.060)

<u>Name</u>	<u>Term of Office Elected/Expires Or Date Hired</u>	<u>Fees & Expense Reim- bursement</u>	<u>Title at End of Year</u>	<u>Resident of District</u>
<u>Board Members:</u>				
Jarod Hangartner	(Elected) 5/20-5/24	\$	President	Yes
Nick Calautti	(Elected) 5/22-5/26		Vice President	Yes
Jeffery Henderson	(Elected) 5/20-5/24		Sec/Treas	Yes
Scott Hengemuhle	(Elected) 5/22-5/26		Director	Yes
Omar Naji	Appointed 1/22-1/24		Director	Yes
<u>Key administrative personnel</u>				
R. Dewane Clark			Superintendent	No
Tommy Johnson			Customer Service	No
Chris Windsor			Customer Service	No
<u>Consultants</u>				
Nabors CPA Services, P.C.		19,600	Auditor	No
Julie Fort Attorney P.L.L.C.		12,554	Attorney	No
McManus and Johnson		\$ 82,651	Consultant	No

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.