

GASTONIA-SCURRY  
SPECIAL UTILITY DISTRICT  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2023

MCPA, P.C.  
Certified Public Accountants

Gastonia-Scurry Special Utility District  
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December 31, 2023

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# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS COUNTY OF KAUFMAN

I, \_\_\_\_\_ of the

(Name of Duly Authorized District Representative)

GASTONIA-SCURRY SPECIAL UTILITY DISTRICT

(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of the Directors of the District on the 23rd day of APRIL its annual audit report for the fiscal year or period ended DECEMBER 31, 2023 and those copies of the annual audit report have been filed in the district office, located at:

8560 PAGE LANE, SCURRY, TEXAS 75158

(Address of District)

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

Date: \_\_\_\_\_ By: \_\_\_\_\_

(Signature of District Representative)

\_\_\_\_\_  
(Typed Name & Title of above District Representative)

Sworn to and Subscribed to before me by this \_\_\_\_\_ day of \_\_\_\_\_

(SEAL)

\_\_\_\_\_  
(Signature of Notary)

My Commission Expires On: \_\_\_\_\_

Notary Public in the State of Texas.

# MCPA, PC

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Certified Public Accountants

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Gastonia-Scurry Special Utility District  
Scurry, Texas

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

We have audited the accompanying financial statements of the business-type activities of the Gastonia-Scurry Special Utility District ("District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Gastonia-Scurry Special Utility District, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### BASIS FOR OPINION

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

#### RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

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

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

#### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Gastonia-Scurry Special Utility District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Gastonia-Scurry Special Utility District's ability to continue as a going concern for a reasonable period of time.

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

#### REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-9 and 21 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the

Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### SUPPLEMENTARY INFORMATION

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

These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the TSI schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*MCPA, PC*

MCPA, P.C.  
*Certified Public Accountants*  
Forney, Texas

March 29, 2024

Gastonia-Scurry Special Utility District  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2023

Schedule  
Reference  
Number

Findings

(None noted)

Gastonia-Scurry Special Utility District  
Corrective Actions Planned  
For the Year Ended December 31, 2023

Schedule  
Reference  
Number

Actions Planned

(None)



Gastonia-Scurry Special Utility District  
Management's Discussion and Analysis  
December 31, 2023

This section of Gastonia-Scurry Special Utility District's ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2023. Please read it in conjunction with the District's basic financial statements.

#### FINANCIAL HIGHLIGHTS

- The District's assets exceeded its liabilities by \$18,396,772 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$16,856,901. Of the \$18,396,772 in net assets, \$8,294,074 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers and creditors.
- During the year, the District's operating revenues of \$4,572,875 generated from charges for services, customer charges and fees for business-type activities exceeded operating expenses by \$1,250,825.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

##### *District-wide financial statements*

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

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

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

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

Gastonia-Scurry Special Utility District  
Management's Discussion and Analysis  
December 31, 2023

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

*Notes to Financial Statements*

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

The District's net assets at fiscal year-end are \$18,396,772. Of this amount, 54.92% reflects its investments in capital assets such as land, buildings, distribution system, improvements, machinery and equipment and construction in progress, less any debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to customers and are therefore not available for future spending. Please note, however, that even though the investments in capital assets are reported net of their related debt, the assets themselves cannot be used to liquidate this debt, and those funds must be provided from other sources. The following table provides a summary of the District's net assets at December 31:

SUMMARY OF NET ASSETS

	Business-Type Activities	
Assets:	<u>2023</u>	<u>2022</u>
Cash and Investments	\$ 8,224,536	\$ 6,045,276
Other Current Assets	571,850	464,985
Capital Assets, net	10,102,698	10,758,036
Total assets	<u>\$ 18,899,084</u>	<u>\$ 17,268,297</u>
Liabilities:		
Current & Deposit Liabilities	\$ 502,312	\$ 411,396
Total Liabilities	502,312	411,396
Net assets:		
Invested in capital assets, net of related debt	10,102,698	10,758,036
Unrestricted	8,294,074	6,098,865
Total net assets	18,396,772	16,856,901
Total Liabilities and Net Assets	\$ 18,899,084	\$ 17,268,297

Gastonia-Scurry Special Utility District  
Management's Discussion and Analysis  
December 31, 2023

ANALYSIS OF THE DISTRICT'S OPERATIONS

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the District's changes in net assets for the year ended December 31, 2023. Business-type activities increased the District's net assets by \$1,539,871.

SUMMARY OF CHANGES IN NET ASSETS

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Water Sales	\$ 4,219,562	\$ 3,858,813
Customer Charges/Fees	<u>353,313</u>	<u>349,859</u>
 TOTAL OPERATING REVENUE	 \$ 4,572,875	 4,208,672
OPERATING EXPENSES		
Payroll and benefits	735,976	650,794
Water purchased	1,254,670	1,164,431
Field expenses	338,726	309,210
Operating expenses	167,359	197,662
Professional and legal fees	16,575	10,500
Operating Insurance	36,802	31,325
Depreciation and amortization	<u>771,942</u>	<u>751,171</u>
 TOTAL OPERATING EXPENSES	 <u>3,322,050</u>	 <u>3,115,093</u>
 NET OPERATING REVENUE (EXPENSES)	 1,250,825	 1,093,579
NONOPERATING REVENUE (EXPENSES)		
Interest on investments	151,170	69,545
Bank and investment fees	(32,203)	(23,525)
Developer contributions to fund capital assets	-	253,130
Realized Gain (loss) on assets	(1,701)	(113)
Unrealized gain (loss) on investments	<u>171,780</u>	<u>(356,094)</u>
 NET NONOPERATING REVENUE (EXPENSES)	 <u>289,046</u>	 <u>(57,057)</u>
 NET REVENUE (EXPENSES)	 <u>\$ 1,539,871</u>	 <u>\$ 1,036,522</u>
 BEGINNING NET ASSETS	 <u>16,856,901</u>	 <u>15,820,379</u>
 ENDING NET ASSETS	 <u>\$ 18,396,772</u>	 <u>\$ 16,856,901</u>

Gastonia-Scurry Special Utility District  
Management’s Discussion and Analysis  
December 31, 2023

CAPITAL ASSETS

The District’s investment in capital assets for its business-type activities, net of depreciation and related debt, as of December 31, 2023 is \$10,102,698. These include land, buildings, improvements, machinery and equipment, infrastructure and construction in progress.

	<u>2023</u>	<u>2022</u>
Land	\$ 56,020	\$ 56,020
Building and Improvements	1,242,320	1,184,000
Vehicles	319,125	319,125
Machinery and Equipment	3,545,666	3,476,512
Distribution System	16,891,601	16,891,601
Construction in progress	<u>32,321</u>	<u>43,191</u>
Total at Historical Cost	22,087,054	21,970,450
Total Accumulated Depreciation	<u>(11,984,356)</u>	<u>(11,212,414)</u>
Net Capital Assets	\$ <u>10,102,698</u>	\$ <u>10,758,036</u>

ECONOMIC ENVIRONMENT AND NEXT YEAR’S BUDGETS AND RATES

At this time, Gastonia-Scurry Special Utility District is not aware of any decisions or conditions that would impact the District’s operations through 2024.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the District’s finances, comply with finance related laws and regulations, and demonstrate the District’s commitment to accountability. If you have any questions about this report or would like to request additional information, requests should be addressed to Josey Pearson, Accounting Manager of the District at P.O. Box 68 (8560 Page Lane), Scurry, TX 75158 or by calling (972) 452-3388.

Gastonia-Scurry Special Utility District  
Statement of Net Assets  
Utility Fund  
December 31, 2023

	<u>Business-type Activities-Enterprise (Utility Fund)</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 655,546
Investments	7,568,990
Accounts receivable (net of allowance for uncollectibles)	380,254
Inventory	77,364
Prepaid and other assets	<u>114,232</u>
Total Current Assets	<u>8,796,386</u>
Non-current assets	
Capital assets (net, where applicable of accumulated depreciation)	<u>10,102,698</u>
Total Non-Current Assets	<u>10,102,698</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 18,899,084</u></u></b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 78,977
Other liabilities	71,235
Customer deposits payable	<u>352,100</u>
Total current liabilities	<u>502,312</u>
<b>TOTAL LIABILITIES</b>	<b><u>502,312</u></b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	10,102,698
Unrestricted	<u>8,294,074</u>
<b>TOTAL NET ASSETS</b>	<b><u>18,396,772</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 18,899,084</u></u></b>

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

Gastonia-Scurry Special Utility District  
Statement of Activities and Changes in Net Assets  
Utility Fund  
For the Year Ended December 31, 2023

	Business-type Activities-Enterprise (Utility Fund)
Operating revenues:	
Water sales	\$ 4,219,562
Customer charges/fees	353,313
Total operating revenues	4,572,875
Operating expenses:	
Payroll and benefits	735,976
Water purchased	1,254,670
Field expenses	338,726
Operating expenses	167,359
Professional and legal fees	16,575
Operating insurance	36,802
Depreciation and amortization	771,942
Total operating expenses	3,322,050
Operating income (loss)	1,250,825
Nonoperating revenue (expenses):	
Income on investments	151,170
Bank and investment fees	(32,203)
Developer contributions to fund capital assets	-
Realized gain (loss) on investments	(1,701)
Unrealized gain (loss) on investments	171,780
Total nonoperating revenue (expenses):	289,046
Change in net assets	1,539,871
Total net assets-beginning	16,856,901
Total net assets-ending	\$ 18,396,772

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

Gastonia-Scurry Special Utility District  
Statement of Cash Flows  
Utility Fund  
For the Year Ended December 31, 2023

	Business-type Activities-Enterprise (Utility Fund)
Cash flows from operating activities:	
Receipts from customers and users	\$ 4,529,714
Payments to suppliers	(1,748,224)
Payments to employees	(735,976)
Net cash provided (used) by operating activities	2,045,514
Cash flows from noncapital financing activities:	
Cash provided (used) by noncapital financing activities	-
Net cash provided (used) by noncapital financing activities	-
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(116,604)
Developer contribution for construction of capital assets	-
Transfer excess cash to Wells Fargo Investment	(2,000,000)
Transfer in from Wells Fargo Investment for capital assets	250,667
Net cash provided (used) by capital and related financing activities	(1,865,937)
Cash flows from investing activities:	
(Purchase) sale of investments	-
Misc Other (other banking fees)	(2,693)
Net cash provided (used) by investing activities	(2,693)
Net increase (decrease) in cash and cash equivalents	176,884
Cash and cash equivalents at beginning of year	478,662
Cash and cash equivalents at end of year	\$ 655,546

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

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

Operating income (loss)	\$	1,250,825
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization		771,942
(Increase) decrease in accounts receivable		(48,161)
(Increase) decrease in inventory		1,513
(Increase) decrease in prepaid expenses		(21,521)
Increase (decrease) in accounts payable and accrued expenses		85,916
Increase (decrease) in customer deposits		5,000
Total adjustments		<u>794,689</u>
Net cash provided by operating activities	\$	<u><u>2,045,514</u></u>

Noncash investing, capital and financing activities:

Fixed assets purchased on account	\$	-
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The accompanying notes are an integral part of the financial statements.



Gastonia-Scurry Special Utility District  
Notes to Financial Statements  
December 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Approval of the voters within the District on November 17, 2007 established Gastonia-Scurry Special Utility District. The Gastonia-Scurry Special Utility District is an organization as set forth under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 65 of the Texas Water Code.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles of the District follow.

Reporting Entity

The Board of Directors (Board) is a seven-member group elected by the public. The Board has governance responsibilities over all activities related to providing water services to customers within the jurisdiction of the Gastonia-Scurry Special Utility District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations; and has the primary accountability for financial matters.

The District is not included in any other governmental “Reporting Entity” as defined by GASB in its Statement No. 14, “The Financial Reporting Entity.” There are no component units presented.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

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

The proprietary financial statements use the economic resources measurement focus and the accrual basis of accounting. In accordance with FASB ASC 606-10-50-12, the District recognizes revenue at the time that the client’s water meter is read and billing invoice for water used is sent to the customer. Water bills are due and payable upon receipt. When the invoice is sent by the District, an accounts receivable is recorded in their accounting system. Upon subsequent customer payment, the account receivable is reduced. If the customer does not pay or respond by the 26<sup>th</sup> of the following month, their water meter is subject to disconnect until the customer can bring their account current. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. However, materials and supplies inventories are not considered expenditures until they are consumed. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the statement of net assets.

Gastonia-Scurry Special Utility District  
Notes to Financial Statements  
December 31, 2023

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges for customers for sales or services and fees charged with the intention of recovering costs associated with connecting new customers. Principal operating expenses are the costs of providing the water services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting these criteria are reported as general revenues and expenses.

*Budget*

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

*Other Significant Accounting Policies*

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

Investments – The investments of the District are recorded at their fair value at December 31, 2023.

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

Revenue – The Corporation receives a substantial portion of its revenue from its member’s water consumption and related fees associated with providing water delivery services at standard rates. Additional revenue sources include developer contributions to the distribution system and investment income. In accordance with FASB ASC 606-10-50-12, the Corporation recognizes revenue at the time that the client’s water meter is read and billing invoice for water used is sent to the customer.

Inventory and prepaid items – Inventories are valued using (FIFO) the first-in/first-out method. Governmental fund inventories are recorded as an expense as they are used rather when purchased.

Payments to vendors that are applicable to future periods are recorded in both the government-wide and the fund financial statements as prepaid items.

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

Gastonia-Scurry Special Utility District  
Notes to Financial Statements  
December 31, 2023

Outlays for major (normally over \$5,000) capital asset additions and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the constructed assets less any interest earned on the invested proceeds over the same period.

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

	<u>Assets</u>	<u>Years</u>
Furniture and Fixtures		5-10
Vehicles		5-10
Land Improvements		5-10
Equipment		7-10
Buildings		10-35
Distribution System		35

Depreciation expense for the year ended December 31, 2023 was \$771,942.

Impairment of Long-lived Assets – The District reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset’s carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of December 31, 2023, no impairment of long-lived assets is necessary.

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

Retirement Plan – Gastonia-Scurry Special Utility District provides a Simple IRA plan for its employees. Under the plan, an employee can defer up to \$15,500 in 2023 and the District will match up to 3% of employee wages. For the year ended December 31, 2023 the District’s benefit expense was \$8,353.

Gastonia-Scurry Special Utility District  
Notes to Financial Statements  
December 31, 2023

NOTE 2 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land and Improvements	\$ 56,020	\$ -	\$ -	\$ 56,020
Distribution System	16,891,601	-	-	16,891,601
Buildings and Improvements	1,184,000	58,320	-	1,242,320
Vehicles	319,125	-	-	319,125
Machinery and Equipment	3,476,512	69,154	-	3,545,666
Construction in Progress	<u>43,191</u>	<u>18,320</u>	<u>(29,190)</u>	<u>32,321</u>
Total capital assets at historical cost	21,970,449	145,794	(29,190)	22,087,054
Less accumulated depreciation for:				
Total accumulated depreciation	<u>(11,212,414)</u>	<u>(771,942)</u>		<u>(11,984,356)</u>
Business-type activities capital assets, net	<u>\$ 10,758,036</u>	<u>\$ (626,148)</u>	<u>\$ (29,190)</u>	<u>\$ 10,102,698</u>

Foot Notes to Capital Asset Roll forward

\* CUSI upgrade to UMS, new 24kw generator, and new fence at water tower 34.

\* CIP continued 2nd water source with NTMWD, and Rosehill SUD Connection project.

NOTE 3 - DEPOSITS, SECURITIES AND INVESTMENTS

The District has adopted the provision of GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” This statement requires certain investments to be reported at their fair value rather than cost or amortized cost, and earnings on the investments are recorded as investment revenue and changes in fair value are recorded as unrealized gains or losses on investments. District investments are being held by Wells Fargo Advisors. All investments are currently invested in cash, money market funds, and fixed income investments, such as certificate of deposits, municipal securities, preferred securities, and government securities. The District’s investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to be in compliance with the requirements of the Act.

Investments can be categorized according to three levels of custodial credit risk, they are:

- Category 1 Insured or registered, or securities held by the District or its agent in the District’s name.
- Category 2 Uninsured and unregistered, with securities held by the financial institution’s trust department or agency in the District’s name.
- Category 3 Uninsured and unregistered, with securities held by the financial institution, or by its trust department or agent but not in the District’s name.

The following table categorizes the District’s investment at December 31, 2023, utilizing the levels of custodial credit risk as described above:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
<u>Wells Fargo Advisors:</u>				
Cash and Sweep Balances	\$ 255,155	\$ -	\$ -	\$ 255,155
Fixed Income Securities	7,122,219			7,122,219
Mutual Funds	<u>446,772</u>			<u>446,772</u>
Total	<u>\$ 7,935,256</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,935,256</u>

Gastonia-Scurry Special Utility District  
Notes to Financial Statements  
December 31, 2023

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

- **Credit Risk**  
Credit risk is related to the risk that an issuer or other party to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At December 31, 2023, the District was not significantly exposed to credit risk.
- **Custodial Credit Risk**  
Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At December 31, 2023, the District was not exposed to custodial credit risk.

- **Concentration of Credit Risk**  
This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At December 31, 2023, the District was not exposed to concentrations of credit risk.
- **Interest Rate Risk**  
This is the risk that changing interest rates will have an adverse effect on the fair value of an investment. At December 31, 2023, the District was not significantly exposed to interest rate risk
- **Foreign Currency Risk**  
This is the risk that is associated with exchange rates and the possibility that they will adversely affect the fair value of an investment. At December 31, 2023, the District was not exposed to foreign currency risk.

#### NOTE 4 – OTHER INFORMATION

A. Risk management

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

Gastonia-Scurry Special Utility District  
Notes to Financial Statements  
December 31, 2023

B. Commitments

The District has entered into a contract with the North Texas Municipal Water District in which the District purchases water for distribution to its customers. The overall agreement is for 40 years through the year 2029, but each year new purchase rates are provided by NTMWD. For FY 2023, this was a monthly payment of \$103,059 paid to NTMWD. For FY 2024, this will be a monthly payment of \$111,378.

The District has also purchased approximately 8% of the 4-1 Joint Venture capacity from Rose Hill SUD in January 2022 (bringing total ownership in the Joint Venture up to 50%) to also raise the total water capacity by roughly 4% according to engineering specifications. For FY 2024, this will be an additional monthly reimbursement of \$5,365 paid to Rose Hill SUD.

C. Customer Deposits

Each new customer of the District is required to pay \$100, representing a refundable deposit to secure payment of the customer's water bill. At December 31, 2023, the District was obliged to its customers in the amount of \$352,100.

D. Litigation

The District does not appear to be involved in any litigation that would result in the need for a liability to be recorded as of December 31, 2023.

E. Accrued Vacation

Employees of the District are entitled to paid vacation and sick days depending on length of service and other factors. Accumulated unpaid time off as of year-end 2023 was \$5,563. The maximum allowable accumulation of unused vacation leave is fifteen days (120 hours); the maximum allowable accumulation of unused sick leave is 30 days (240 hours).

NOTE 5 – SUBSEQUENT EVENTS

Gastonia-Scurry Special Utility District has evaluated subsequent events through March 29, 2024, the date which the financial statements were available to be issued and noted there were no significant subsequent events to disclose.

REQUIRED SUPPLEMENTARY INFORMATION

Gastonia-Scurry Special Utility District  
 Budgetary Comparison Schedule  
 Utility Fund  
 For the Year Ended December 31, 2023

	Proposed Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Charges for services	\$ 3,726,769	\$ 3,726,769	\$ 4,219,562	\$ 492,793
Other revenue	424,000	424,000	353,313	(70,687)
	<u>4,150,769</u>	<u>4,150,769</u>	<u>4,572,875</u>	<u>422,106</u>
<b>Expenses:</b>				
Payroll and benefits	871,594	871,594	735,976	(135,618)
Water purchased	1,396,941	1,396,941	1,254,670	(142,271)
Field expenses	338,355	338,355	338,726	371
Operating expenses	300,923	300,923	167,359	(133,564)
Professional and legal fees	17,200	17,200	16,575	(625)
Operating insurance	33,000	33,000	36,802	3,802
Depreciation and amortization	700,000	700,000	771,942	71,942
Total operating expenses	<u>3,658,012</u>	<u>3,658,012</u>	<u>3,322,050</u>	<u>(335,962)</u>
<b>Nonoperating revenue (expenses):</b>				
Investment income	75,600	75,600	151,170	75,570
Bank and investment fees	-	-	(32,203)	(32,203)
Developer contributions	-	-	-	-
Market Changes on Investments	-	-	170,079	170,079
Total nonoperating expenses	<u>75,600</u>	<u>75,600</u>	<u>289,046</u>	<u>213,446</u>
Change in net assets	568,357	568,357	1,539,871	971,514
Net assets - beginning	<u>16,856,901</u>	<u>16,856,901</u>	<u>16,856,901</u>	<u>-</u>
Net assets - ending	<u>\$ 17,425,258</u>	<u>\$ 17,425,258</u>	<u>\$ 18,396,772</u>	<u>\$ 971,514</u>

**\*\*Board approved Capital Projects:**

New generator	\$ 39,651
Fence at Water Tower	54,432
Rose Hill Project	18,320
	<u>\$ 112,403</u>

See independent auditor's report.



TEXAS SUPPLEMENTARY INFORMATION (TSI)  
(Other Supplementary Information)

Gastonia-Scurry Special Utility District  
 Services and Rates  
 December 31, 2023

1. Services provided by the District:

- Retail Water                       Wholesale Water                       Drainage  
 Retail Wholesaler                       Wholesale Wastewater                       Irrigation  
 Parks/Recreation                       Fire Protection                       Security  
 Solid Waste/Garbage                       Flood Control                       Roads  
 Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)  
 Other (specify): \_\_\_\_\_

2. Retail Rates Based on 5/8" Meter:

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons over Minimum	Usage Levels
WATER:	\$ 43.18	1,500	N	\$ 7.54	1,501 to 4,000
				\$ 9.25	4,001 to 7,000
				\$ 10.96	7,001 to 10,000
				\$ 12.67	10,001 up

District employs winter averaging for wastewater usage? \_\_\_Yes  No  
 Total charges per 10,000 gallons usage (with reg fee): Water: \$123.27

Water Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	-
≤ 5/8"	3,452	3,452	x 1.0	3,452
1"	25	25	x 2.5	63
1 1/2"	-	-	x 5.0	-
2"	10	10	x 8.0	80
3"	-	-	x 15.0	-
Total Water	3,487	3,487		3,595
Total Wastewater	-	-	x 1.0	-

See independent auditor's report.

Gastonia-Scurry Special Utility District  
 Services and Rates (continued)  
 December 31, 2023

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

Gallons pumped into system:	322,793,000
Gallons billed to customers:	284,556,984
Water Accountability Ratio:	88.15%

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

5. Location of District: 8560 Page Ln. Scurry, TX 75158

County(ies) in which district is located. Kaufman

Is the District located entirely in one county?  Yes  No

City(ies) in which District is located: Kaufman, Terrell, Scurry, Talty, Crandall

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

ETJs in which District is located. Crandall, Kaufman, Scurry, Talty, Terrell

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

If yes, by whom? n/a

See independent auditor's report.

Gastonia-Scurry Special Utility District  
Enterprise Fund Expenditures  
December 31, 2023

Personnel Expenditures (including benefits)*	\$ 735,976
Professional Fees:	
Audit and Accounting	9,950
Legal	6,625
Engineering	1,215
Purchased Services For Resale:	
Bulk Water	1,254,670
Utilities	52,565
Repairs and Maintenance	
Field and Equipment	64,616
Repairs	46,792
Administrative Expenditures:	
Operating Insurance	36,802
Health Insurance**	143,210
Office and Administrative	197,687
Other Expenditures	
Depreciation & Amortization	<u>771,942</u>
<b>TOTAL OPERATING EXPENDITURES</b>	<b><u>\$ 3,322,050</u></b>

\* Number of persons employed by the District: 9 Full-Time 2 Part-Time

\*\* Health insurance on the financial statements is included in payroll and benefits.

See independent auditor's report.

Gastonia-Scurry Special Utility District  
 Temporary Investments  
 December 31, 2023

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at Year End</u>
Wells Fargo Financial:				
Cash and Money Market	7.36%	n/a	\$ 255,155	\$ -
Fixed Income (CDs and Bonds)	variable	variable	7,122,219	56,804
Mutual Funds	variable	variable	446,772	-
		Total	<u>\$ 7,824,145</u>	<u>\$ 56,804</u>

See independent auditor's report.

Gastonia-Scurry Special Utility District  
Long-Term Debt Service Requirements  
December 31, 2023

The district has no outstanding bonding indebtedness.

See independent auditor's report.

Gastonia-Scurry Special Utility District  
Change in Long-Term Bonded Debt  
December 31, 2023

The district has no outstanding bonding indebtedness.

See independent auditor's report.

Gastonia-Scurry Special Utility District  
Comparative Schedule of Revenues and Expenses  
Utility Fund  
For the Three Years Ended December 31, 2023

	AMOUNTS			PERCENT OF FUND TOTAL REVENUE		
	2023	2022	2021	2023	2022	2021
<b>OPERATING REVENUE</b>						
Water Sales	\$ 4,219,562	\$ 3,858,813	\$ 3,130,190	92.27%	91.69%	89.16%
Customer Charges/Fees	353,313	349,859	380,491	7.73%	8.31%	10.84%
<b>TOTAL OPERATING REVENUE</b>	<b>4,572,875</b>	<b>4,208,672</b>	<b>3,510,681</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>OPERATING EXPENSES</b>						
Payroll and benefits	735,976	650,794	693,863	16.09%	15.46%	19.76%
Water purchased	1,254,670	1,164,431	1,066,046	27.44%	27.67%	30.37%
Field expenses	338,726	309,210	399,790	7.41%	7.35%	11.39%
Operating expenses	167,359	197,662	221,033	3.66%	4.70%	6.30%
Professional and legal fees	16,575	10,500	77,913	0.36%	0.25%	2.22%
Operating insurance	36,802	31,325	39,653	0.80%	0.74%	1.13%
Depreciation and amortization	771,942	751,171	830,176	16.88%	17.85%	23.65%
<b>TOTAL OPERATING EXPENSES</b>	<b>3,322,050</b>	<b>3,115,093</b>	<b>3,328,474</b>	<b>72.65%</b>	<b>74.02%</b>	<b>94.81%</b>
<b>NET OPERATING REVENUE (EXPENSES)</b>	<b>1,250,825</b>	<b>1,093,579</b>	<b>182,207</b>	<b>27.35%</b>	<b>25.98%</b>	<b>5.19%</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>						
Interest on investments	151,170	69,545	83,967	3.31%	1.65%	2.39%
Bank and investment fees	(32,203)	(23,525)	(24,992)	-0.70%	-0.56%	-0.71%
Misc Other	-	-	-	0.00%	0.00%	0.00%
Realized Gain (loss) on assets	(1,701)	(113)	(3,041)	-0.04%	0.00%	-0.09%
Unrealized gain (loss) on investments	171,780	(356,094)	(104,510)	3.76%	-8.46%	-2.98%
<b>NET NONOPERATING REVENUE (EXPENSES)</b>	<b>289,046</b>	<b>(310,187)</b>	<b>(48,576)</b>	<b>6.32%</b>	<b>-7.37%</b>	<b>-1.38%</b>
<b>NET REVENUE (EXPENSES)</b>	<b>\$ 1,539,871</b>	<b>\$ 783,392</b>	<b>\$ 133,631</b>	<b>33.67%</b>	<b>18.61%</b>	<b>3.81%</b>

See independent auditor's report



Gastonia-Scurry Special Utility District  
 Board Members, Key Personnel and Consultants  
 December 31, 2023

Complete District Mailing Address: P.O. Box 68 Scurry, TX 75158  
 District Telephone Number: 972-452-3388  
 Submission Date of the most recent District Registration Form: November 2021  
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 37,500

	Term of Office (Elected or Appointed or <u>Date Hired</u> )	Fees of Office Paid <u>12/31/23</u>	Expense Reimbursements <u>12/31/23</u>	Title at <u>Year End</u>
<u>Board Members</u>				
<u>(Current):</u>				
Jeremy Rhoads	2023-2024	\$ 2,526	\$ -	President
Joe Hatcher	2023-2025	2,455	-	Vice President
Ernest Martzen	2022-2024	3,155	-	Secretary
Drew Sloan	2023-2025	3,276	-	Treasurer
Lisa Jones	2023-2025	2,455	-	Director
Bobby Bridges	2023-2026	221	-	Director
Steve Veirs	2023-2026	221	-	Director
Rick Burginger	2021-2023	2,724	-	(Resigned Dec. 2023)
Joshua Lathem	2021-2023	1,050	-	(Resigned Oct. 2023)

Key Administrative  
 Personnel:

Ginny Rivers King	11/1/2021	87,418	-	Resigned in 2023
Josey Pearson	10/01/2023	12,995	-	Office Manager

Consultants:

MCPA, P.C.	9,950	-	Auditor
James Wilson & Assc.	6,256	-	Attorney
Velvin & Weeks	3,015	-	Engineers

See independent auditor's report.

# MCPA, PC

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Certified Public Accountants

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

March 29, 2024

To the Board of Directors and Management  
Gastonia-Scurry Special Utility District

We have audited the financial statements of the business type activities of the Gastonia-Scurry Special Utility District (District) as of and for the year ended December 31, 2023, and have issued our report thereon dated March 29, 2024. Professional standards require that we advise you of the following matters relating to our audit.

## OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

As communicated in our engagement letter dated January 2, 2024, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

## PLANNED SCOPE AND TIMING OF THE AUDIT

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

## COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

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

## SIGNIFICANT AUDIT FINDINGS

### *Qualitative Aspects of the District's Significant Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Gastonia-Scurry Special Utility District are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

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

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

### *Financial Statement Disclosures*

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

The disclosure of Capital Assets in Note 2 to the financial statements as these represent significant current and future projects of the District.

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

### *Significant Unusual Transactions*

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

### *Significant Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

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

These included adjustments to:

- *Adjustment to tie out and correctly record activity on the Wells Fargo Advisory Acct.*
- *Adjustment to tie out year end inventory to count provided by GS SUD.*
- *Adjustment to correctly reclass water regulatory tax fee to liability account.*
- *Adjustment to true up the prepaid insurance asset account.*
- *Adjustment to tie out membership deposits to year end statement.*
- *Multiple reclassification entries between fixed assets, construction in progress and operating expenses.*
- *Adjustment to true up depreciation estimate to CPA schedule at year end.*
- *Adjustment to remove duplicated deposits from operating account bank reconciliation.*

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 29, 2024.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Gastonia-Scurry Special

Utility District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- Year-end close and reporting – many of the journal entries above should be addressed by a proper year-end close process. Primarily, significant accounts should be reconciled to supporting documents and these reconciliations should be reviewed/approved by management and the board. While it was noted that the Organization experienced turnover to key personnel and board members during the audited period, new management has ensured these control areas will be a priority in the upcoming year.

#### OTHER MATTERS

We applied certain limited procedures to the MD&A, Budget and Actual schedules, as well as the Texas Supplementary Information Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

#### RESTRICTION ON USE

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

Very truly yours,

*MCPA, PC*

MCPA, P.C.