

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS

COUNTY OF TITUS

I, C.W. Forsyth, President of the Board of Directors of Tri-Special Utility District (the "District") hereby swear, or affirm, that the District has reviewed and approved at a meeting of the Board of Directors of the District its audit report for the year ended December 31, 2020, and that copies of the audit report have been filed in the District office, located at 300 West 16th Street, Mount Pleasant, Texas 75455. 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 all annual filing requirements within Section 49.194 of the Texas Water Code.

Date: 4-27-21

By: 
District Representative

C.W. Forsyth, President
Title of the above District Representative

Sworn to and subscribed to before me this 27 day of April, 2021.




Notary Public, State of Texas

TRI-SPECIAL UTILITY DISTRICT

Financial Statements and
Independent Auditor's Report

For the year ended
December 31, 2020

Tri-Special Utility District
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For the year ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tri-Special Utility District
Mount Pleasant, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Tri-Special Utility District, which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-Special Utility District as of December 31, 2020, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information in Exhibits D through K are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2021, on our consideration of Tri-Special Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Tri-Special Utility District's internal control over financial reporting and compliance.

Arnold, Walker, Arnold & Co., P.C.

ARNOLD, WALKER, ARNOLD & CO., P.C.

March 11, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Tri-Special Utility District (SUD), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance of the District for the year ended December 31, 2020. The information presented here should be read in conjunction with the independent auditor's report and the District's financial statements.

FINANCIAL HIGHLIGHTS

The District's total combined net position was \$12.99 million at December 31, 2020. \$11.9 million of the net position is invested in capital assets of which the most is the water system. For this year, the District had a net operating income of \$694 thousand. The total increase to net position was \$973 thousand.

Capital assets of \$1.4 million were added this year with no new debt. All additions were paid from current and past earnings.

There were no water rate changes in 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are composed of Statement of Net Position, Statement of Activities and Changes in Net Position, Statement of Cash Flows, and Notes to the Basic Financial Statements. This report also contains other supplementary information and statistical information in addition to the basic financial statements themselves.

Basic Financial Statements. The financial statements are designed to provide readers with an overview of the District's finances, in a matter similar to private-sector businesses.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities and Changes in Net Position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net position may serve as an indicator of the effect of the District's current year operation on its financial position.

The Statement of Cash Flows summarizes all of the District's cash flows into four categories: 1) cash flows from operating activities, 2) cash flows from non-capital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities. The Statement of Cash Flows can be found on page 10 of the financial statements. The Statement of Cash Flows, along with the related notes and information in other financial statements, can be useful in assessing the following.

- The District's ability to generate future cash flows.
- The District's ability to pay its debt as the debt matures.
- Reasons for the difference between the District's operating cash flows and operating income (loss)
- The effect on the District's financial position of cash and non-cash transactions from investing, capital and financing activities.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The Supplemental Information to the Financial Statements provides a general overview of the factors used in computing the financial statements.

The District has only one type of fund, a proprietary fund type for the water fund. Services for which the District charges customers a fee are reported in an enterprise fund.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net position was \$12.99 million at December 31, 2020.

Table A-1
The District's Net Position
(in thousands of dollars)

	Business Type	
	Activities	
	2020	2019
Current and other assets	1,682	1,599
Capital and non-current assets	11,916	11,136
TOTAL ASSETS	13,598	12,735
Long-term liabilities	551	538
Other liabilities	59	182
TOTAL LIABILITIES	610	720
Net investment in capital assets	11,916	11,136
Unrestricted	1,072	879
TOTAL NET POSITION	12,988	12,015

Net investment in capital assets reflects the book value of the District's capital assets net of related debt. The \$1.07 million of unrestricted net position represents resources available to fund the operations of the District for the next year.

Net position increased by \$973 thousand from the excess of revenues over expenses for the period. \$1.39 million of new capital assets were added. Depreciation expense of \$612 thousand was recorded for the period.

Changes in net position.

The District's total revenues for the period were approximately \$4.2 million. 85% of this was from water sales and 8% was from setting new meters and lines.

The cost of all operations for the period was \$3.2 million. Approximately 36% of this was for water purchases from the City of Mount Pleasant. Approximately 25% of the costs were for personnel costs and benefits.

Table A-2
The District's Changes in Net Position
(in thousands of dollars)

	Business-Type Activities	
	2020	2019
Revenues		
<u>Operating revenues</u>		
Charges for Services	3,917	3,745
Other	6	4
Interest	8	
Improvement reimbursement	266	8
Total Revenues	<u>4,197</u>	<u>3,757</u>
Expenses		
Water purchases	1,156	1,362
Material purchases	165	109
Personnel services and benefits	792	773
Utilities	159	179
Maintenance, repairs, and others	149	144
Depreciation	612	588
Administrative and other	191	162
Total Expenses	<u>3,224</u>	<u>3,317</u>
Increase (Decrease) in net assets	973	440
Net position, January 1,	12,015	11,575
Net position, December 31,	<u>12,988</u>	<u>12,015</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-3
District's Capital Assets
(in thousands of dollars)

	Business-Type Activities	
	2020	2019
Land	98	98
Buildings & improvements	821	821
Construction in progress	603	433
Equipment & vehicles	1,098	1,042
Water system	18,055	16,949
Office equipment	256	245
Total as historical cost	<u>20,931</u>	<u>19,588</u>
Total accumulated depreciation	<u>(9,015)</u>	<u>(8,452)</u>
Net capital assets	<u>11,916</u>	<u>11,136</u>

Several projects were started and completed in 2020. 3 new trucks were purchased. Two major projects are still in progress and will be completed in early 2021.

Long-Term Debt

The District is debt-free.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board considered many factors when adopting a budget for 2021. Slow but constant growth is projected to continue as in previous years. The number of customers is projected to grow only slightly in 2021. The revenue is budgeted anticipating a normal year as far as anticipated rainfall. Operating expenses are budgeted to remain about the same as 2020. Possible capital outlay projects for 2021 total \$1.2 million. No new debt is anticipated.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Tri-Special Utility District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the General Manager, Tri-Special Utility District, 300 West 16th Street, Mount Pleasant, TX 75455.

BASIC FINANCIAL STATEMENTS

Tri-Special Utility District
STATEMENT OF NET POSITION
As of December 31, 2020

ASSETS	
Current Assets	
Cash and cash equivalents	1,271,625
Accounts receivable-water sales, net of allowances	248,882
Inventory	156,340
Prepaid expense	5,439
Total current assets	<u>1,682,286</u>
Property, Plant and Equipment	
Land	97,684
Buildings and improvements	821,238
Equipment and vehicles	1,097,952
Water system	18,054,614
Office equipment	255,637
Construction in progress	603,498
Total	<u>20,930,623</u>
Less accumulated depreciation	<u>(9,014,620)</u>
Net property, plant, and equipment	<u>11,916,003</u>
Total assets	<u>13,598,289</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	41,465
Water assessment payable	17,754
Total current liabilities	<u>59,219</u>
Long-term liabilities	
Customer deposits	551,100
Total long-term liabilities	<u>551,100</u>
Total liabilities	<u>610,319</u>
NET POSITION	
Net investment in capital assets	11,916,003
Unrestricted	1,071,967
Total net position	<u>12,987,970</u>

The accompanying notes are an integral part of this statement.

Tri-Special Utility District
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
For the year ended December 31, 2020

OPERATING REVENUES	
Water sales	3,580,803
Meters, lines, and fees	336,392
Other	1,331
Total operating revenues	<u>3,918,526</u>
OPERATING EXPENSES	
Personnel services and benefits	792,245
Professional fees	19,152
Contractual services	6,300
Water purchased	1,156,009
Material purchased	165,139
Utilities	158,615
Maintenance, repairs, and others	148,758
Administrative	165,990
Depreciation	612,157
Total operating expenses	<u>3,224,365</u>
Net operating income (loss)	<u>694,161</u>
NONOPERATING REVENUE (EXPENSES)	
Gain on disposition of assets	5,000
Improvement reimbursement	266,275
Interest income	7,650
Total nonoperating revenues (expenses)	<u>278,925</u>
Net income (loss)	973,086
Net position, January 1, 2020	<u>12,014,884</u>
Net position, December 31, 2020	<u>12,987,970</u>

The accompanying notes are an integral part of this statement.

Tri-Special Utility District
STATEMENT OF CASH FLOWS
For the year ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	3,925,185
Cash payments to suppliers for goods and services	(1,962,626)
Cash payments to employees for services and benefits	<u>(791,744)</u>
Net cash provided by operating activities	<u>1,170,815</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(1,392,146)
Improvement reimbursement	266,275
Proceeds from sale of trucks	<u>5,000</u>
Net cash (used in) capital and related financing activities	<u>(1,120,871)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>7,650</u>
Net cash provided by investing activities	<u>7,650</u>
Net increase in cash and cash equivalents	57,594
Cash and cash equivalents, January 1, 2020	<u>1,214,031</u>
Cash and cash equivalents, December 31, 2020	<u><u>1,271,625</u></u>
RECONCILIATION OF OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	694,161
Adjustment to reconcile operating (loss)	
to net cash provided by operating activities	
Depreciation	612,157
Increase in accounts receivable-water sales	(6,741)
Increase in customer deposits	13,400
Decrease in accounts payable and accrued expenses	(122,760)
Increase in inventory	(13,963)
Increase in prepaid expenses	<u>(5,439)</u>
Net cash provided by operating activities	<u><u>1,170,815</u></u>

The accompanying notes are an integral part of this statement.

Tri-Special Utility District
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

Note 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Tri-Special Utility District is a nonprofit rural water system created in 1967 to provide safe drinking water by way of an underground distribution system to citizens of a portion of Franklin, Morris and Titus Counties in Northeast Texas. The District is a conversion of the former Tri-Water Supply Corporation. All assets, liabilities and operations were transferred May 1, 2004. The aforementioned Corporation was dissolved May 11, 2004.

As a political subdivision of the State of Texas, the District is exempt from federal income taxes, state and local sales and uses taxes, and local real and personal property taxes. The District has no taxing authority.

BASIS OF ACCOUNTING

The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. With the conversion to the special utility district, GASB standards must be followed.

The District implemented the new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments; GASB Statement No. 37, Basic Financial Statements--for State and Local Governments: Omnibus; and GASB Statement No. 38, Certain Financial Statement Note Disclosures.

The more significant of the District's accounting policies are described below:

1. Government Entities Included

All activities and organizations over which the Board of Directors exercises control and has fiscal responsibility and control are included in the basic financial statements.

2. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups. The District has a single fund, a proprietary fund type, the Water Fund, which is an Enterprise Fund. An Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The net assets of the District comprise the results of operations of the District and the predecessor Corporation for operations prior to and after the conversion to Special Utility District status.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

Note 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

BASIS OF ACCOUNTING continued

3. Other Accounting Policies

- A. For purposes of the statement of cash flows, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
- B. Temporary cash investments, which consist only of money market accounts and certificates of deposit are carried at cost. Investments, which consist of U.S. Treasury notes, are carried at lower of the cost or market.
- C. Inventory, which consists of underground line materials and supplies, is carried at cost on the first-in first-out basis.
- D. Property and equipment is stated at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

Water system	10-50 years
Buildings and improvements	30 years
Furniture, equipment, and vehicles	5-10 years

The principle asset of the District is an underground water distribution system with necessary pump stations. The system was originally sponsored and financed by the Farmers Home Administration of the United States Department of Agriculture through loans and two federal grants.

- E. The Board of Directors prepares and adopts a budget each year. The budget is adopted on a basis consistent with generally accepted accounting principles. Any major capital expenditures are considered when adopting the budget. The budget was not amended this year.

Note 2--CASH AND TEMPORARY INVESTMENTS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

Additional contractual provisions governing deposits and investments for the District are as follows:

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does address the following risks:

- 1. Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policy regarding types of deposits allowed and collateral requirements is that the funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the District’s funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

Deposits of the District are insured or collateralized with securities held by the pledging financial institution’s trust department or agent in the name of the District.

At December 31, 2020, the carrying amount of the District's deposits (cash, certificates of deposit, interest-bearing savings accounts included in temporary investments, and guaranteed investment contracts) was \$1,271,625 and the bank balance was \$1,280,049. The District's cash deposits at December 31, 2020 and during the year ended December 31, 2020 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Guaranty Bank and Trust
 - b. The market value of securities pledged as of December 31, 2020 was \$963,609.
 - c. Certificates of deposit at the District's banks other than the Depository are covered in full by FDIC as of December 31, 2020.
 - d. Total amount of FDIC coverage at December 31, 2020 was \$250,000.
2. Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The District has no investments exposed to custodial credit risk at the end of the period.
 3. Interest- rate Risk – Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for these securities if interest rates rise. The District does not purchase investments where the face value is not guaranteed.
 4. Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The District is not exposed to any amounts of concentration risk.
 5. Other Credit Risk Exposure – The District has no investments in external investment pools.
 6. Foreign Currency Risk for Investments – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not allowing foreign investments.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments are Level 1.

Cash and Temporary Investments consist of cash in Bank Accounts at Guaranty Bond Bank, Certificates of Deposit at Guaranty Bond Bank, and guaranteed investment contracts.

Cash on hand	1,200
Checking @ Guaranty Bank & Trust	768,541
Guaranteed Investment Contracts:	
National Western Life	128,134
American National Life	123,790
Equitrust Investment	106,724
American General Life	66,754
Ohio National Life	38,241
Ohio National Life	38,241
Total Cash and Temporary Investments	<u>1,271,625</u>

Note 3--ACCOUNTS RECEIVABLE

Accounts receivable is comprised of amounts due to the District from water sales. It is reported net of allowance for uncollectibles on the statement of net assets. The District follows the policy of mailing bills at the beginning of the month, with past due notice approximately two weeks later. An age analysis of receivable balances is not available. As a conservative measure, all accounts over 30 days old are considered uncollectible. Receivables at December 31, 2020 are as follows:

Accounts receivable from water sales	302,464
Allowance for uncollectibles	(54,436)
Other	854
	<u>248,882</u>

Note 4—PROPERTY, PLANT, AND EQUIPMENT

Capital asset activity for the year ended December 31, 2020 follows:

Description	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
Land	97,684	-	-	97,684
Buildings & improvements	821,238	-	-	821,238
Construction in progress	432,887	603,498	(432,887)	603,498
Equipment & vehicles	1,042,229	105,547	(49,824)	1,097,952
Water system	16,949,376	1,105,238	-	18,054,614
Office equipment	244,887	10,750	-	255,637
Less: Accumulated Depreciation				
Buildings & improvements	(338,269)	(22,928)	-	(361,197)
Equipment & vehicles	(704,172)	(110,592)	49,824	(764,940)
Water system	(7,172,590)	(476,211)	-	(7,648,801)
Office equipment	(237,256)	(2,426)	-	(239,682)
Net book value	11,136,014	1,212,876	(432,887)	11,916,003

Depreciation expense was \$612,157 for the year.

Note 5—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 2020 is as follows:

Accounts payable	56,515
Payroll taxes and benefits	2,704
	59,219

Note 6—CUSTOMER DEPOSITS

The District requires each new customer to pay \$100 which is held as a refundable deposit to secure payment of the customer's water bill. When a customer discontinues service, the \$100 less any unpaid water bill is refunded. Prior to conversion to a special utility district, this \$100 was treated as membership equity.

Note 7—ACCRUED COMPENSATED ABSENCES

There is no liability for compensated absences.

Note 8--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. During fiscal 2020, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 9--CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

Neither management nor the District's attorney is aware of any contingent liabilities. Management is not aware nor or we of any subsequent events that would have a material effect on the financial statements as of March 11, 2021, the date the reports were available to be issued.

Note 10--COMMITMENTS

The District purchases all of its water from the City of Mount Pleasant, Texas. The District has a contract with the City of Mount Pleasant through 2058 for the right to purchase water. The price per 1,000 gallons is renegotiated every two years. The cost per 1,000 gallons is \$2.95 at December 31, 2020. The District paid approximately \$1.16 million for water purchased during the year ended December 31, 2020.

Note 11--LITIGATION

The District has no litigation matters at December 31, 2020.

SUPPLEMENTAL INFORMATION

Tri-Special Utility District
SCHEDULE OF SERVICES AND RATES
 December 31, 2020

1. Services provided by the District: Retail Water

2. Retail rates based on 5/8" meter
 Most prevalent type of meter: 3/4"

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons	Usage Levels Each 1000 Gallons
Water	\$22.20	0	N	\$5.75	

1/2 of 1% of Bill in addition to above for water assessment charge collected and paid to state

Minimum for 1" meter \$27.15; \$5.75 per 1000 gallons plus 1/2 of 1% assessment charge.

Minimum for 1 1/2" meter \$32.98; \$5.75 per 1000 gallons plus 1/2 of 1% assessment charge.

Minimum for 2" meter \$44.20; \$5.75 per 1000 gallons plus 1/2 of 1% assessment charge.

Minimum for 3" meter \$96.45; \$5.75 per 1000 gallons plus 1/2 of 1% assessment charge.

Minimum for 4" meter \$165.20; \$5.75 per 1000 gallons plus 1/2 of 1% assessment charge.

Drought Management Plan Rates: same rates year round

3. Stand by fees: None

4. Total water consumption during the year ended December 31, 2020

	<u>In Thousands</u>
Gallons pumped into system (unaudited)	407,748,890
Gallons billed to customers (unaudited)	363,729,290

5. Number of retail water connections as of December 31, 2020: 5,738

6. The District has no debt service require requirements at December 31, 2020.

Tri-Special Utility District
SCHEDULE OF WATER FUND EXPENDITURES
For the year ended December 31, 2020

CURRENT

Personnel (including benefits)	<u>792,245</u>
Professional Fees	
Auditing	12,650
Legal	2,052
Engineering	<u>4,450</u>
	<u>19,152</u>
Contractual Services	
Bookkeeping	<u>6,300</u>
Water Purchased	<u>1,156,009</u>
Material Purchased	<u>165,139</u>
Utilities	<u>158,615</u>
Repairs, Maintenance and Other	
Operating Expenditures	
District repairs and maintenance	67,998
Fuel	19,831
Sewer charges	22,895
Travel and vehicle expense	-
Other	<u>38,034</u>
	<u>148,758</u>
Administrative Expenditures	
Director's fees	5,300
Office supplies	48,587
Insurance	30,331
Licenses and permits	14,986
Dues	36,711
Other	<u>30,075</u>
	<u>165,990</u>
CAPITAL OUTLAY	
Acquisition of fixed assets	<u>1,392,146</u>
DEBT SERVICE	
Principal	-
Interest	<u>-</u>
	<u>-</u>
TOTAL EXPENDITURES	<u><u>4,004,354</u></u>

Tri-Special Utility District
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
For the year ended December 31, 2020

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water sales	3,604,128	3,580,803	(23,325)
Meters, lines, and fees	229,720	336,392	106,672
Other	1,200	1,331	131
Total operating revenues	<u>3,835,048</u>	<u>3,918,526</u>	<u>83,478</u>
OPERATING EXPENSES			
Personnel services and benefits	789,700	792,245	(2,545)
Professional fees	18,500	19,152	(652)
Contractual services	6,500	6,300	200
Water purchased	1,425,000	1,156,009	268,991
Material purchased	109,000	165,139	(56,139)
Utilities	169,400	158,615	10,785
Maintenance, repairs, and other	157,100	148,758	8,342
Administrative	118,130	165,990	(47,860)
Depreciation	-	612,157	(612,157)
Total operating expenses	<u>2,793,330</u>	<u>3,224,365</u>	<u>(431,035)</u>
Net operating income	<u>1,041,718</u>	<u>694,161</u>	<u>(347,557)</u>
NONOPERATING REVENUE (EXPENSES)			
Interest income	8,000	7,650	(350)
Improvement reimbursement	300,000	266,275	(33,725)
Gain on disposition of assets	10,000	5,000	(5,000)
Total nonoperating revenues (expenses)	<u>318,000</u>	<u>278,925</u>	<u>(39,075)</u>
Net income (loss)	1,359,718	973,086	(386,632)
Net position, January 1, 2020	<u>12,014,884</u>	<u>12,014,884</u>	<u>-</u>
Net position, December 31, 2020	<u>13,374,602</u>	<u>12,987,970</u>	<u>(386,632)</u>

Tri-Special Utility District
ANALYSIS OF CHANGES IN FIXED ASSETS
 December 31, 2020

	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
FIXED ASSETS				
Land	97,684	-	-	97,684
Buildings and improvements	821,238	-	-	821,238
Construction in progress	432,887	603,498	(432,887)	603,498
Equipment and vehicles	1,042,229	105,547	(49,824)	1,097,952
Water system	16,949,376	1,105,238	-	18,054,614
Office equipment	244,887	10,750	-	255,637
Total fixed assets	<u>19,588,301</u>	<u>1,825,033</u>	<u>(482,711)</u>	<u>20,930,623</u>
AMOUNTS PROVIDED BY				
Farmers Home Administration				
Loans and Grants	756,601	-	-	756,601
Revenues	16,204,896	1,558,758	482,711	17,280,943
Customer contributions	1,813,029	266,275	-	2,079,304
Capital lease	813,775	-	-	813,775
Total	<u>19,588,301</u>	<u>1,825,033</u>	<u>482,711</u>	<u>20,930,623</u>

Tri-Special Utility District
SCHEDULE OF INSURANCE COVERAGE
December 31, 2020

Policy Company <u>Coverage</u>	Amount of <u>Coverage</u>	<u>From</u>	<u>To</u>	Annual <u>Premium</u>
Commercial Property TML Blanket	8,103,601	10/1/20	10/1/21	\$ 9,471
General Liability TML Each Occurrence Aggregate Limit Equipment Floater Umbrella	1,000,000 2,000,000 244,450 5,000,000	10/1/20	10/1/21	\$ 7,103
Crime Fidelity & Deposit Dishonesty	250,000	10/1/20	10/1/21	\$ 2,012
Workers Comp TML	1,000,000	10/1/20	10/1/21	\$ 11,904

Tri-Special Utility District
COMPARATIVE STATEMENT OF REVENUE AND EXPENSES
WATER FUND
For years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Water sales	3,580,803	3,520,632
Meters, lines, and fees	336,392	222,718
Other	<u>1,331</u>	<u>1,461</u>
Total operating revenues	<u>3,918,526</u>	<u>3,744,811</u>
OPERATING EXPENSES		
Personnel services and benefits	792,245	772,969
Professional fees	19,152	17,013
Contractual services	6,300	6,075
Water purchased	1,156,009	1,361,821
Material purchased	165,139	108,753
Utilities	158,615	178,588
Maintenance, repairs, and others	148,758	143,778
Administrative	165,990	140,333
Depreciation	<u>612,157</u>	<u>587,450</u>
Total operating expenses	<u>3,224,365</u>	<u>3,316,780</u>
Net operating income	<u>694,161</u>	<u>428,031</u>
NONOPERATING REVENUE (EXPENSES)		
Interest income	7,650	8,456
Improvement reimbursement	266,275	-
Sale of assets	<u>5,000</u>	<u>3,118</u>
Total nonoperating revenue (expenses)	<u>278,925</u>	<u>11,574</u>
Changes in net position	973,086	439,605
Net position, January 1,	<u>12,014,884</u>	<u>11,575,279</u>
Net position, December 31,	<u><u>12,987,970</u></u>	<u><u>12,014,884</u></u>

Tri-Special Utility District
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 December 31, 2020

Complete mailing address: Tri-Special Utility District
 300 West 16th Street
 Mount Pleasant, TX 75455

District Business Telephone No.: (903) 572-3676

Key Personnel: Aaron Gann, Manager
 1051 CR 3420
 Mount Pleasant, TX 75455

Submission date of most recent District registration form: Filed at creation

Limit on fees of office that a director may receive during a year: \$600/month

Board Members:

Name and address	Term of Office (Elected/ Appointed)	Fees of Office Paid This Period	Expense Reimb.	Title at Year End
C.W. Forsyth, Jr. P O Box 605 Omaha, TX 75571	2018-2021	650	None	President
James Maxton 1963 CR 4330 Omaha, TX 75571	2017-2020	550	None	Vice-President
Daniel Grissom 86 CR 1487 Mount Pleasant, TX 75455	2019-2022	650	None	Director
Rodney Glenn 71 CR 3080 Mount Pleasant, TX 75455	2018-2021	650	None	Director
Brad Eubanks 2750 CR 4660 Mount Pleasant, TX 75455	2017-2020	350	None	Director
Danny Beard 84 CR 1432 Mount Pleasant, TX 75455	2017-2020	650	None	Director
Keitha Nilsson 1206 Linda Drive Daingerfield, TX 75638	2018-2021	600	None	Secretary-Treasurer
Ed Dotson 6877 FM 2348 Mount Pleasant, TX 75455	2019-2022	650	None	Director
Gerald Clark 1037 CR 3925 Mount Pleasant, TX 75455	2019-2022	600	None	Director

Tri-Special Utility District
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
December 31, 2020

Consultants:

Name and address	Fees and Expense Reimbursement This Period	Title
Russell & Wooten, P.C. 204 W. Seventh Street Mount Pleasant, TX 75455	2,052	Attorney
Baker & Johnson, P.C. 207 W. Third Street Mount Pleasant, TX 75455	6,300	Bookkeeper
Arnold, Walker, Arnold & Co., P.C. 915 N. Jefferson Street Mount Pleasant, TX 75455	12,650	Auditor
J.F. Fontaine & Associates, Inc. 700 N. Sycamore Street Palestine, TX 75802	28,250	Engineer

Tri-Special Utility District
REQUIREMENTS ON DEBT PAYABLE
December 31, 2020

The District has no debt.

INTERNAL CONTROL SECTION



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

Board of Directors
Tri-Special Utility District
Mount Pleasant, TX 75455

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Tri-Special Utility District, which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

March 11, 2021

Tri-Special Utility District
SCHEDULE OF FINDINGS
For the year ended December 31, 2020

- I. Summary of the auditor's results:
 - a. The type of report issued on the financial statements of Tri-Special Utility District was unmodified.
 - b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses: None
 - c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee: None
- II. Findings relating to the financial statements which are required to be reported in accordance with generally accepted government auditing standards.

N/A

Tri-Special Utility District
SCHEDULE OF STATUS OF PRIOR FINDINGS
For the year ended December 31, 2020

PRIOR YEAR'S FINDINGS

N/A

STATUS OF PRIOR YEAR'S FINDINGS

N/A

Tri-Special Utility District
CORRECTIVE ACTION PLAN
For the year ended December 31, 2020

Item #

Corrective Action Plan

N/A