

FAR HILLS UTILITY DISTRICT
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Far Hills Utility District
Montgomery County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Far Hills Utility District (the "District") as of and for the year ended December 31, 2022, 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 governmental activities and each major fund of the District as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 8 to the financial statements, in the current fiscal year, the District adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

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

In performing an audit in accordance with generally accepted auditing standards, 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 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 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 the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund 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.

Board of Directors
Far Hills Utility District

Supplementary 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 supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide an assurance, 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 13, 2023

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Management's discussion and analysis of Far Hills Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2022. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective like that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources, with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund financial statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO FINANCIAL STATEMENTS

The accompanying notes to financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by \$372,042 as of December 31, 2022.

A portion of the District's net position reflects its net investment in capital assets (land, buildings and equipment as well as water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding).

The following is a comparative analysis of government-wide changes in net position:

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2022	2021	Change Positive (Negative)
Current and Other Assets	\$ 13,359,440	\$ 5,153,737	\$ 8,205,703
Right-of-Use Assets (Net of Accumulated Amortization)	50,177		50,177
Capital Assets (Net of Accumulated Depreciation)	<u>10,761,602</u>	<u>8,649,291</u>	<u>2,112,311</u>
Total Assets	<u>\$ 24,171,219</u>	<u>\$ 13,803,028</u>	<u>\$ 10,368,191</u>
Due to Developer	\$ 4,478,737	\$ 1,333,423	\$ (3,145,314)
Long-Term Liabilities	16,753,275	9,151,455	(7,601,820)
Other Liabilities	<u>719,346</u>	<u>682,884</u>	<u>(36,462)</u>
Total Liabilities	<u>\$ 21,951,358</u>	<u>\$ 11,167,762</u>	<u>\$ (10,783,596)</u>
Deferred Inflows of Resources	<u>\$ 1,847,819</u>	<u>\$ 1,423,866</u>	<u>\$ (423,953)</u>
Net Position:			
Net Investment in Capital Assets	\$ (3,632,092)	\$ (1,861,548)	\$ (1,770,544)
Restricted	975,609	517,321	458,288
Unrestricted	<u>3,028,525</u>	<u>2,555,627</u>	<u>472,898</u>
Total Net Position	<u>\$ 372,042</u>	<u>\$ 1,211,400</u>	<u>\$ (839,358)</u>

The following table provides a summary of the District's operations for the years ended December 31, 2022, and December 31, 2021.

	Summary of Changes in the Statement of Activities		
	2022	2021	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,416,163	\$ 1,314,522	\$ 101,641
Charges for Services	767,822	764,755	3,067
Other Revenues	<u>100,061</u>	<u>19,228</u>	<u>80,833</u>
Total Revenues	<u>\$ 2,284,046</u>	<u>\$ 2,098,505</u>	<u>\$ 185,541</u>
Expenses for Services	<u>3,123,404</u>	<u>1,441,433</u>	<u>(1,681,971)</u>
Change in Net Position	\$ (839,358)	\$ 657,072	\$ (1,496,430)
Net Position, Beginning of Year	<u>1,211,400</u>	<u>554,328</u>	<u>657,072</u>
Net Position, End of Year	<u>\$ 372,042</u>	<u>\$ 1,211,400</u>	<u>\$ (839,358)</u>

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2022, were \$11,182,656, an increase of \$7,751,120 from the prior year.

The General Fund fund balance increased by \$464,233, primarily due to current year revenues exceeding operating and capital expenditures.

The Debt Service Fund fund balance increased by \$450,099, primarily due to the structure of the District's debt service obligations and the receipt of capitalized interest from the sale of Series 2022 Bonds.

The Capital Projects Fund fund balance increased by \$6,836,788, primarily due to the sale of Series 2022 Bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current year. The budget was not amended. Actual revenues were \$230,643 more than budgeted revenues, actual expenditures were \$60,627 more than budgeted expenditures and unbudgeted transfers were \$29,122. This resulted in a positive variance of \$199,138. See the budget to actual comparison for more information.

CAPITAL ASSETS

Capital assets as of December 31, 2022, total \$10,761,602 (net of accumulated depreciation) and include land, buildings and equipment as well as the water, wastewater and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2022	2021	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 393,993	\$ 393,993	\$
Construction in Progress	110,567	174,396	(63,829)
Capital Assets, Net of Accumulated Depreciation:			
Buildings	236,746	253,948	(17,202)
Water System	4,047,766	3,434,854	612,912
Wastewater System	5,052,842	3,819,363	1,233,479
Drainage System	919,688	572,737	346,951
Total Net Capital Assets	\$ 10,761,602	\$ 8,649,291	\$ 2,112,311

Additional information on the District's capital assets can be found in Note 6 of this report.

The District also entered into a lease agreement for smart meters which is recorded as a right-of-use asset in the government-wide financial statements. See Note 8 for further disclosure.

**FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CAPITAL ASSETS (Continued)

Right-of-Use Assets At Year-End, Net of Accumulated Amortization			
	2022	2021	Change Positive (Negative)
Right-of-Use Assets, Net of Accumulated			
Amortization:			
Equipment	\$ 50,177	\$ 65,817	\$ (15,640)

DEBT ACTIVITY

At the end of the current fiscal year, the District had total debt payable of \$17,258,575. The changes in the debt position of the District during the fiscal year ended December 31, 2022, are summarized as follows:

Bond Debt

Bond Debt Payable, January 1, 2022	\$ 9,545,000
Add: Series 2022 Bond Sale	7,980,000
Less: Bond Principal Paid	320,000
Bond Debt Payable, December 31, 2022	\$ 17,205,000

Capital Lease Payable

Capital Lease Payable, January 1, 2022	\$ 65,817
Less: Capital Lease Principal Paid	12,242
Capital Lease Payable, December 31, 2022	\$ 53,575

The District's bonds carry an underlying rating of "BBB" by Standard & Poor's Ratings Services ("S&P"). The Series 2018 and Series 2022 bonds carry an insured rating of "AA" by virtue of bond insurance by Build America Mutual Assurance Company. The Series 2020 Refunding bonds carry an insured ratings of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Far Hills Utility District, c/o Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, TX 77019.

**FAR HILLS UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2022**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 110,957	\$ 714,622
Investments	3,093,878	1,043,712
Cash with Tax Assessor/Collector		139,980
Receivables:		
Property Taxes	413,145	513,162
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$3,000)	39,456	
Annexation Costs	1,660	
Due from Developer	2,007	
Due from Other Funds	514,500	
Prepaid Costs	7,875	
Land		
Construction in Progress		
Right-of-Use Asset (Net of Accumulated Amortization)		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 4,183,478	\$ 2,411,476

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 18,400	\$ 843,979	\$	\$ 843,979
7,249,614	11,387,204		11,387,204
	139,980		139,980
	926,307		926,307
		4,239	4,239
	39,456		39,456
	1,660		1,660
	2,007		2,007
	514,500	(514,500)	
	7,875	6,733	14,608
		393,993	393,993
		110,567	110,567
		50,177	50,177
		<u>10,257,042</u>	<u>10,257,042</u>
<u>\$ 7,268,014</u>	<u>\$ 13,862,968</u>	<u>\$ 10,308,251</u>	<u>\$ 24,171,219</u>

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

**FAR HILLS UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2022**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 100,383	\$
Accrued Interest Payable		
Due to Developer		
Due to Other Funds		329,584
Security Deposits	184,871	
Accrued Bond Interest Received at Time of Sale		15,346
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
Capital Lease Payable, Due Within One Year		
Capital Lease Payable, Due After One Year		
TOTAL LIABILITIES	\$ 285,254	\$ 344,930
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 828,648	\$ 1,030,718
FUND BALANCES		
Nonspendable: Prepaid Costs	\$ 7,875	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,035,828
Unassigned	3,061,701	
TOTAL FUND BALANCES	\$ 3,069,576	\$ 1,035,828
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,183,478	\$ 2,411,476
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 5,846	\$ 106,229	\$	\$ 106,229
		85,560	85,560
		4,478,737	4,478,737
184,916	514,500	(514,500)	
	184,871		184,871
	15,346	(15,346)	
		330,000	330,000
		16,712,386	16,712,386
		12,686	12,686
		40,889	40,889
<u>\$ 190,762</u>	<u>\$ 820,946</u>	<u>\$ 21,130,412</u>	<u>\$ 21,951,358</u>
<u>\$ - 0 -</u>	<u>\$ 1,859,366</u>	<u>\$ (11,547)</u>	<u>\$ 1,847,819</u>
\$ 7,077,252	\$ 7,875	\$ (7,875)	\$
	7,077,252	(7,077,252)	
	1,035,828	(1,035,828)	
	3,061,701	(3,061,701)	
<u>\$ 7,077,252</u>	<u>\$ 11,182,656</u>	<u>\$ (11,182,656)</u>	<u>\$ - 0 -</u>
<u>\$ 7,268,014</u>	<u>\$ 13,862,968</u>		
		\$ (3,632,092)	\$ (3,632,092)
		975,609	975,609
		3,028,525	3,028,525
		<u>\$ 372,042</u>	<u>\$ 372,042</u>

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

**FAR HILLS UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2022**

Total Fund Balances - Governmental Funds \$ 11,182,656

Amounts reported for governmental activities in the Statement of Net Position are different because:

Bond insurance premiums paid at closing are amortized over the term of the bonds. 6,733

Right-of-Use assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 50,177

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 10,761,602

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2021 and prior tax levies became part of recognized revenues in the governmental activities of the District. 15,786

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Due to Developer	\$ (4,478,737)	
Accrued Interest Payable	(70,214)	
Capital Lease Payable Within One Year	(12,686)	
Capital Lease Payable After One Year	(40,889)	
Bonds Payable Within One Year	(330,000)	
Bonds Payable After One Year	<u>(16,712,386)</u>	<u>(21,644,912)</u>

Total Net Position - Governmental Activities \$ 372,042

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

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FAR HILLS UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2022

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 733,945	\$ 687,899
Water Service	337,296	
Wastewater Service	340,118	
San Jacinto River Authority Fees	7,496	
Penalty and Interest	5,904	7,756
Tap Connection and Inspection Fees	70,690	
Investment Revenues	49,073	14,674
Miscellaneous Revenues	19,546	
TOTAL REVENUES	\$ 1,564,068	\$ 710,329
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 113,460	\$ 750
Contracted Services	122,401	14,222
Purchased Water Service	20,540	
Utilities	102,642	
Repairs and Maintenance	326,561	
Depreciation and Amortization		
Other	230,380	1,683
Conveyance of Assets		
Capital Outlay	198,343	
Debt Service:		
Bond Issuance Costs		
Bond Principal		320,000
Capital Lease Principal	12,242	
Bond Interest		318,200
Capital Lease Interest	2,388	
TOTAL EXPENDITURES/EXPENSES	\$ 1,128,957	\$ 654,855
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 435,111	\$ 55,474
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ 29,122	\$
Long-Term Debt Issued		394,625
Bond Discount		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 29,122	\$ 394,625
NET CHANGE IN FUND BALANCES	\$ 464,233	\$ 450,099
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2022	2,605,343	585,729
FUND BALANCES/NET POSITION - DECEMBER 31, 2022	\$ 3,069,576	\$ 1,035,828

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,421,844	\$ (5,681)	\$ 1,416,163
	337,296		337,296
	340,118		340,118
	7,496		7,496
	13,660	(1,438)	12,222
	70,690		70,690
16,768	80,515		80,515
	19,546		19,546
<u>\$ 16,768</u>	<u>\$ 2,291,165</u>	<u>\$ (7,119)</u>	<u>\$ 2,284,046</u>
\$	\$ 114,210	\$	\$ 114,210
	136,623		136,623
	20,540		20,540
	102,642		102,642
	326,561	(65,817)	260,744
		464,953	464,953
641	232,704		232,704
		888,349	888,349
106,316	304,659	(304,659)	
586,081	586,081		586,081
	320,000	(320,000)	
	12,242	(12,242)	
	318,200	(3,676)	314,524
	2,388	(354)	2,034
<u>\$ 693,038</u>	<u>\$ 2,476,850</u>	<u>\$ 646,554</u>	<u>\$ 3,123,404</u>
<u>\$ (676,270)</u>	<u>\$ (185,685)</u>	<u>\$ (653,673)</u>	<u>\$ (839,358)</u>
\$ (29,122)	\$	\$	\$
7,585,375	7,980,000	(7,980,000)	
(43,195)	(43,195)	43,195	
<u>\$ 7,513,058</u>	<u>\$ 7,936,805</u>	<u>\$ (7,936,805)</u>	<u>\$ -0-</u>
\$ 6,836,788	\$ 7,751,120	\$ (7,751,120)	\$
		(839,358)	(839,358)
240,464	3,431,536	(2,220,136)	1,211,400
<u>\$ 7,077,252</u>	<u>\$ 11,182,656</u>	<u>\$ (10,810,614)</u>	<u>\$ 372,042</u>

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

FAR HILLS UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Net Change in Fund Balances - Governmental Funds	\$ 7,751,120
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.	(5,681)
Governmental funds report penalty and interest revenues on property taxes when collected. However, in the government-wide financial statements, revenues are recorded when the penalty and interest are assessed.	(1,438)
Governmental funds do not account for depreciation and amortization. However, in the government-wide financial statements, capital assets are depreciated while right-of-use assets are amortized. Depreciation and amortization expenses are recorded in the Statement of Activities.	(464,953)
Governmental funds report capital costs as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital assets purchases are expensed in the Statement of Activities.	370,476
Assets conveyed to other governmental entities are recorded as expenses in the Statement of Activities.	(888,349)
Governmental funds report principal payments on long-term debt as expenditures. However, in the government-wide financial statements, principal payments decrease long-term liabilities and the Statement of Activities is not affected.	332,242
Governmental funds report interest payments on long-term debt as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on the long-term debt through fiscal year-end.	4,030
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the government-wide financial statements.	(7,980,000)
Governmental funds report bond discounts as other financing uses in the year paid. However, in the government-wide statements, bond discounts are amortized over the life of the bonds and the current year amortized portion is added to interest expense.	43,195
Change in Net Position - Governmental Activities	<u>\$ (839,358)</u>

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

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1. CREATION OF DISTRICT

Far Hills Utility District, located in Montgomery County, Texas (the “District”), was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”), effective January 4, 1972. Pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct and maintain parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on February 2, 1972 and the first bonds were sold on November 15, 1972.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets, Restricted; and Unrestricted. These classifications are defined as follows:

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenues and expenses in the government-wide Statement of Activities.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Governmental Funds Balance Sheet and a Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each fund to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in governmental funds to be available if they are collectable within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenues include the 2021 tax levy collections during the period October 1, 2021, to December 31, 2022, taxes collected from January 1, 2022, to December 31, 2022, for all prior tax levies. The 2022 tax levy has been fully deferred to meet the District's planned expenditures in the 2023 fiscal year.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of December 31, 2022, the Debt Service Fund owed the General Fund \$329,584 for maintenance tax collections. The Capital Projects Fund owed the General Fund \$184,916 for bond issuance costs and capital costs paid by the General Fund.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expenditure in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost of \$5,000 or more and a useful life of at least two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

Right-of-use assets are amortized over the term of the lease, See Note 8.

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are wages subject to federal income tax withholding for payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets, liabilities, and deferred inflows and outflows of resources associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Government Funds Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. The District does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 3. LONG-TERM DEBT

	<u>Series 2013</u>	<u>Series 2015 Refunding</u>	<u>Series 2015</u>
Amount Outstanding – December 31, 2022	\$ 840,000	\$ 1,570,000	\$ 3,185,000
Interest Rates	4.25% - 5.00%	3.00% - 3.375%	3.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	April 1 2023/2037	April 1 2023/2031	April 1 2023/2041
Interest Payment Dates	April 1/October 1	April 1/October 1	April 1/October 1
Callable Dates	April 1, 2021*	April 1, 2023*	April 1, 2023*
	<u>Series 2018</u>	<u>Refunding Series 2020</u>	<u>Series 2022</u>
Amount Outstanding – December 31, 2022	\$ 1,515,000	\$ 2,115,000	\$ 7,980,000
Interest Rates	3.00% - 4.00%	2.00% - 2.50%	4.50% - 5.00%
Maturity Dates – Serially Beginning/Ending	April 1 2023/2042	April 1 2023/2037	April 1 2024/2050
Interest Payment Dates	April 1/October 1	April 1/October 1	April 1/October 1
Callable Dates	April 1, 2025*	April 1, 2026*	October 1, 2028*

* Or any date therefore, in whole or in part, at par plus unpaid accrued interest. Series 2013 term bonds maturing April 1, 2024, 2027 and 2037 are subject to mandatory redemption beginning on April 1, 2023, 2025 and 2028, respectively. The Series 2015 Refunding term bonds maturing on April 1, 2027, 2029 and 2031 are subject to mandatory redemption beginning on April 1, 2026, 2028 and 2030 respectively. The Series 2015 term bonds maturing on April 1, 2038 and 2041 are subject to mandatory redemption beginning on April 1, 2036 and 2039, respectively. The Series 2018 term bonds maturing on April 1, 2038 are subject to mandatory redemption beginning on April 1, 2035. The Series 2020 Refunding term bonds maturing on April 1, 2026, 2029 and 2032 are subject to mandatory redemption beginning on April 1, 2023, 2027 and 2030, respectively. The Series 2022 term bonds maturing on April 1, 2033, 2037, 2042 and 2050 are subject to mandatory redemption beginning on April 1, 2030, 2034, 2038 and 2049, respectively.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2022:

	January 1, 2022	Additions	Retirements	December 31, 2022
Bonds Payable	\$ 9,545,000	\$ 7,980,000	\$ 320,000	\$ 17,205,000
Unamortized Discounts	(127,120)	(43,195)	(7,701)	(162,614)
Bonds Payable, Net	\$ 9,417,880	\$ 7,936,805	\$ 312,299	\$ 17,042,386
		Amount Due Within One Year		\$ 330,000
		Amount Due After One Year		16,712,386
		Bonds Payable, Net		\$ 17,042,386

As of December 31, 2022, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 330,000	\$ 621,220	\$ 951,220
2024	385,000	690,569	1,075,569
2025	395,000	677,308	1,072,308
2026	410,000	663,576	1,073,576
2027	425,000	649,388	1,074,388
2028-2032	2,335,000	3,010,588	5,345,588
2033-2037	2,745,000	2,588,829	5,333,829
2038-2042	3,285,000	2,043,260	5,328,260
2043-2047	4,025,000	1,237,206	5,262,206
2048-2050	2,870,000	219,500	3,089,500
	\$ 17,205,000	\$ 12,401,444	\$ 29,606,444

As of December 31, 2022, the District had authorized but unissued bonds in the amount of \$15,095,000 for waterworks, sanitary sewer and drainage facilities and \$38,270,000 for refunding purposes.

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and wastewater system.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended December 31, 2022, the District levied an ad valorem debt service tax at the rate of \$0.355 per \$100 of assessed valuation, which resulted in a tax levy of \$1,024,962 on the adjusted taxable valuation of \$288,703,777 for the 2022 tax year. The bond orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required to provide to the Municipal Securities Rulemaking Board via the Electronic Municipal Market Access system continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on each five-year anniversary of each issue.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$843,979 and the bank balance was \$858,019. The District was not exposed to custodial credit risk at year-end.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2022, as listed below:

	Cash
GENERAL FUND	\$ 110,957
DEBT SERVICE FUND	714,622
CAPITAL PROJECTS FUND	18,400
TOTAL DEPOSITS	\$ 843,979

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from the TexPool.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of December 31, 2022, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 3,093,878	\$ 3,093,878
<u>DEBT SERVICE FUND</u>		
TexPool	1,043,712	1,043,712
<u>CAPITAL PROJECTS FUND</u>		
TexPool	<u>7,249,614</u>	<u>7,249,614</u>
TOTAL INVESTMENTS	<u>\$11,387,204</u>	<u>\$11,387,204</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2022, the District’s investment in TexPool was rated “AAAm” by Standard and Poor’s.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022:

	January 1, 2022	Increases	Decreases	December 31, 2022
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 393,993	\$	\$	\$ 393,993
Construction in Progress	<u>174,396</u>	<u>2,561,624</u>	<u>2,625,453</u>	<u>110,567</u>
Total Capital Assets Not Being Depreciated	<u>\$ 568,389</u>	<u>\$ 2,561,624</u>	<u>\$ 2,625,453</u>	<u>\$ 504,560</u>
Capital Assets Subject to Depreciation				
Buildings	\$ 572,313	\$	\$	\$ 572,313
Water System	5,268,810	817,325		6,086,135
Wastewater System	5,560,198	1,445,742		7,005,940
Drainage System	<u>694,588</u>	<u>362,386</u>		<u>1,056,974</u>
Total Capital Assets Subject to Depreciation	<u>\$ 12,095,909</u>	<u>\$ 2,625,453</u>	<u>\$ - 0 -</u>	<u>\$ 14,721,362</u>
Less Accumulated Depreciation				
Buildings	\$ 318,365	\$ 17,202	\$	\$ 335,567
Water System	1,833,956	204,413		2,038,369
Wastewater System	1,740,835	212,263		1,953,098
Drainage System	<u>121,851</u>	<u>15,435</u>		<u>137,286</u>
Total Accumulated Depreciation	<u>\$ 4,015,007</u>	<u>\$ 449,313</u>	<u>\$ - 0 -</u>	<u>\$ 4,464,320</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,080,902</u>	<u>\$ 2,176,140</u>	<u>\$ - 0 -</u>	<u>\$ 10,257,042</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,649,291</u>	<u>\$ 4,737,764</u>	<u>\$ 2,625,453</u>	<u>\$ 10,761,602</u>

NOTE 7. MAINTENANCE TAX

On May 4, 1972, the voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended December 31, 2022, the District levied an ad valorem maintenance tax at the rate of \$0.285 per \$100 of assessed valuation, which resulted in a tax levy of \$822,857 on the adjusted taxable valuation of \$288,703,777 for the 2022 tax year.

NOTE 8. CAPITAL LEASE

On March 17, 2016, the District entered into an equipment lease-purchase agreement with Government Capital Corporation to finance the acquisition and installation of electronic water meters. The financed amount was \$120,854 with an incremental borrowing rate of 3.629%. Ten annual payments of \$14,631 are due beginning March 15, 2017 and ending March 15, 2026.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 8. CAPITAL LEASE (Continued)

In 2022, the District implemented GASB Statement No. 87 Leases which became effective for reporting periods beginning after December 15, 2019. However, due to the pandemic, the GASB 87 effective date was delayed to periods beginning after June 15, 2021.

Right-to-Use assets, current year amortization expense and accumulated amortization is summarized below:

	January 1, 2022	Increases	Decreases	December 31, 2022
Right-to-Use Assets Subject to Amortization				
Equipment	\$ 65,817	\$ - 0 -	\$ - 0 -	\$ 65,817
Accumulated Amortization				
Equipment	\$ - 0 -	\$ 15,640	\$ - 0 -	\$ 15,640
Total Right-to-Use Assets, Net of Accumulated Amortization	<u>\$ 65,817</u>	<u>\$ (15,640)</u>	<u>\$ - 0 -</u>	<u>\$ 50,177</u>

During the current fiscal year, the District recorded lease expenditures in the amount of \$14,630 of which \$12,242 was applied to principal and \$2,388 applied to interest and the District's proportionate share of operating costs. The changes in lease liability during the current fiscal year are summarized as follows:

Capital Lease Payable, January 1, 2022	\$ 65,817
Less: Capital Lease Principal Paid	<u>12,242</u>
Capital Lease Payable, December 31, 2022	<u>\$ 53,575</u>

Future lease payments are summarized below:

Fiscal Year	Principal	Interest	Total
2023	\$ 12,686	\$ 1,944	\$ 14,630
2024	13,147	1,484	14,631
2025	13,624	1,007	14,631
2026	14,118	512	14,630
	<u>\$ 53,575</u>	<u>\$ 4,947</u>	<u>\$ 58,522</u>

NOTE 9. LONE STAR GROUND WATER CONSERVATION DISTRICT

The District is located within the boundaries of the Lone Star Ground Water Conservation District (the "Conservation District"). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Conservation District for purposes including the acquisition and provision of surface water and groundwater for residential, commercial,

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 9. LONE STAR GROUND WATER CONSERVATION DISTRICT
(Continued)

industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Conservation District is overseeing that its participants comply with subsidence district pumpage requirements.

The Conservation District charges a fee based on the amount of water pumped from a well to the owner of wells located within the boundaries of the Conservation District, unless exempted. The fee enables the Conservation District to fulfill its purpose and regulatory functions. The fee for non-exempt 2022 permit was \$0.085 per 1,000 gallons of water pumped from each well. The fee for non-exempt 2022 Catahoula Aquifer was \$0.06 per 1,000 gallons of water pumped. During the current fiscal year, the District recorded an expenditure of \$4,882 to the Conservation District.

NOTE 10. 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; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amount for the past three fiscal years.

NOTE 11. SAN JACINTO RIVER AUTHORITY

On June 1, 2010, the District entered into the Contract for Groundwater Reduction Planning, Alternative Water Supply, and Related Goods and Services with the San Jacinto River Authority (the "Authority"). The District and the Authority operate within the boundaries of Lone Star Groundwater Conservation District (the "Conservation District"). See also Note 9. The Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District, are reasonably believed to be adequate to satisfy the total water demands of Montgomery County. A surface water treatment and transmission system (the "Project") is proposed to be designed, constructed, operated, and maintained by the Authority in order to provide phased treatment, transmission, and delivery of the Authority's surface water to regulated users for blending with groundwater supplies, so that regulated users may continue to pump groundwater. The Authority will develop a Groundwater Reduction Plan (the "GRP") for all participants. The Authority charges a fee, currently \$2.99 per 1,000 gallons, based on the amount of groundwater pumped from each well. This fee enables the Authority to achieve, maintain and implement the GRP. The term of this contract expires on December 31, 2045. The Catahoula Aquifer is exempt from the GRP. During the current fiscal year, the District recorded an expenditure of \$20,540 in relation to this contract.

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 12. UNREIMBURSED COSTS

The District has entered into certain financing and reimbursement agreements with a Developer within the District which provides for the Developer to advance funds to or on behalf of the District for water, sewer and drainage facilities. The District has an obligation to reimburse the Developer for these costs from future bond issues to the extent approved by the Commission. The District has recorded a liability to the Developers of \$4,478,737 for advances as of December 31, 2022. The actual amounts owed, including developer interest will be calculated at the time debt is issued to reimburse the Developer. The following table summarizes the current year activity related to unreimbursed developer costs for completed projects:

Due to Developer, beginning of year	\$ 1,333,423
Current Year Activity	<u>3,145,314</u>
Due to Developer, end of year	<u>\$ 4,478,737</u>

NOTE 13. BOND SALE

On December 15, 2022, the District closed on the sale of its \$7,980,000 Series 2022 Unlimited Tax and Revenue Bonds. Proceeds were or will be used to finance the construction cost for the following: Lake Breeze, Section 3; Clear View Estates; water plant improvements; lift station no. 1 improvements; drainage improvements; water well no. 7; water main replacements; and the interconnect with Montgomery County Municipal Utility District No. 2. Bond proceeds were also used to fund capitalized interest and to pay bond issuance costs.

NOTE 14. USE OF SURPLUS FUNDS

On August 12, 2021, in accordance with Rule 30 T.A.C. 293.83(3)(A) of the Commission, the District approved the use of surplus Capital Projects Fund monies to pay for the costs associated with the fence replacement at water plant no. 1. On April 14, 2022, the District transferred \$29,122 in approved surplus funds to the General Fund to reimburse for the fence replacement at water plant no. 1 paid by the General Fund in the prior year.

FAR HILLS UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

**FAR HILLS UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 713,225	\$ 733,945	\$ 20,720
Water Service	260,000	337,296	77,296
Wastewater Service	265,000	340,118	75,118
San Jacinto River Authority Fees	5,000	7,496	2,496
Penalty and Interest	4,500	5,904	1,404
Tap Connection and Inspection Fees	60,000	70,690	10,690
Investment Revenues	700	49,073	48,373
Miscellaneous Revenues	25,000	19,546	(5,454)
TOTAL REVENUES	<u>\$ 1,333,425</u>	<u>\$ 1,564,068</u>	<u>\$ 230,643</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 138,000	\$ 113,460	\$ 24,540
Contracted Services	126,800	122,401	4,399
Purchased Water Service	8,000	20,540	(12,540)
Utilities	81,000	102,642	(21,642)
Repairs and Maintenance	455,700	326,561	129,139
San Jacinto River Authority Assessments		4,736	(4,736)
Other	258,830	225,644	33,186
Capital Outlay		198,343	(198,343)
Debt Service:			
Capital Lease Principal		12,242	(12,242)
Capital Lease Interest		2,388	(2,388)
TOTAL EXPENDITURES	<u>\$ 1,068,330</u>	<u>\$ 1,128,957</u>	<u>\$ (60,627)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 265,095</u>	<u>\$ 435,111</u>	<u>\$ 170,016</u>
OTHER FINANCING SOURCES(USES)			
Transfers In	<u>\$ -0-</u>	<u>\$ 29,122</u>	<u>\$ 29,122</u>
NET CHANGE IN FUND BALANCE	\$ 265,095	\$ 464,233	\$ 199,138
FUND BALANCE - JANUARY 1, 2022	<u>2,605,343</u>	<u>2,605,343</u>	<u></u>
FUND BALANCE - DECEMBER 31, 2022	<u>\$ 2,870,438</u>	<u>\$ 3,069,576</u>	<u>\$ 199,138</u>

See accompanying independent auditor's report.

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FAR HILLS UTILITY DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
DECEMBER 31, 2022

**FAR HILLS UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2022**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order approved November 10, 2022, effective December 1, 2022.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 19.80	2,000	N	\$ 1.55 1.70 2.40 2.95 3.25 3.85 4.00 4.60	2,001 to 5,000 5,001 to 10,000 10,001 to 15,000 15,001 to 20,000 20,001 to 30,000 30,001 to 35,000 35,001 to 50,000 50,001 and up
WASTEWATER:	\$ 36.30	5,000	N	0.19	5,001 and up
SURCHARGE:					
San Jacinto River Authority Assessments			N	\$ 0.10	0,001 and up
TCEQ Regulatory Assessments			N	0.5 % of water and wastewater charges	
District employs winter averaging for wastewater usage?					<u> </u> <u> X </u> Yes No

Total monthly charges per 10,000 gallons usage: Water: \$32.95 Wastewater: \$37.25 Surcharge: \$1.35 Total: \$ 71.55

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2022**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	<u>705</u>	<u>693</u>	x 1.0	<u>693</u>
1"	<u>72</u>	<u>72</u>	x 2.5	<u>180</u>
1½"	<u>1</u>	<u>1</u>	x 5.0	<u>5</u>
2"	<u>6</u>	<u>6</u>	x 8.0	<u>48</u>
3"	<u>2</u>	<u>2</u>	x 15.0	<u>30</u>
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>787</u></u>	<u><u>775</u></u>		<u><u>981</u></u>
Total Wastewater Connections	<u><u>764</u></u>	<u><u>752</u></u>	x 1.0	<u><u>752</u></u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped into system:	82,073,000	Water Accountability Ratio: 94% (Gallons billed and used/Gallons pumped and purchased)
Gallons billed to customers:	77,222,000	

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2022**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

Does the District have Operation and Maintenance standby fees? Yes No

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2022**

PROFESSIONAL FEES:	
Auditing	\$ 21,750
Engineering	40,291
Legal	<u>51,419</u>
TOTAL PROFESSIONAL FEES	<u>\$ 113,460</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 20,540</u>
CONTRACTED SERVICES:	
Bookkeeping and Billings	\$ 30,185
Operations	<u>92,216</u>
TOTAL CONTRACTED SERVICES	<u>\$ 122,401</u>
UTILITIES	<u>\$ 102,642</u>
REPAIRS AND MAINTENANCE	<u>\$ 326,561</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 17,400
Insurance	25,548
Legal Notices	846
Office Supplies and Postage	27,548
Payroll Taxes	548
Travel and Meetings	9,092
Other	<u>14,647</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 95,629</u>
CAPITAL OUTLAY	<u>\$ 198,343</u>
TAP CONNECTIONS	<u>\$ 37,032</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2022**

OTHER EXPENDITURES:

Chemicals	\$ 26,293
Inspection Fees	17,329
Laboratory Fees	23,125
Permit Fees	8,065
Commission Regulatory Assessment	3,196
Sludge Hauling	<u>19,711</u>

TOTAL OTHER EXPENDITURES \$ 97,719

DEBT SERVICE:

Capital Lease Principal	\$ 12,242
Capital Lease Interest	<u>2,388</u>

TOTAL DEBT SERVICE \$ 14,630

TOTAL EXPENDITURES \$ 1,128,957

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
INVESTMENTS
DECEMBER 31, 2022

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 3,093,878	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 977,506	\$
TexPool	XXXX0004	Varies	Daily	66,206	
TOTAL DEBT SERVICE FUND				<u>\$ 1,043,712</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 7,249,614	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 11,387,204</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Maintenance Taxes		Debt Service Taxes
TAXES RECEIVABLE -			
JANUARY 1, 2022	\$ 314,174		\$ 296,581
Adjustments to Beginning			
Balance	<u>(3,963)</u>	\$ 310,211	<u>(3,881)</u> \$ 292,700
Original 2022 Tax Levy	\$ 765,887		\$ 953,999
Adjustment to 2022 Tax Levy	<u>56,970</u>	<u>822,857</u>	<u>70,963</u> <u>1,024,962</u>
TOTAL TO BE			
ACCOUNTED FOR		\$ 1,133,068	\$ 1,317,662
 TAX COLLECTIONS:			
Prior Years	\$ 304,420		\$ 286,944
Current Year	<u>415,503</u>	<u>719,923</u>	<u>517,556</u> <u>804,500</u>
 TAXES RECEIVABLE -			
DECEMBER 31, 2022		<u>\$ 413,145</u>	<u>\$ 513,162</u>
 TAXES RECEIVABLE BY			
YEAR:			
2022		\$ 407,354	\$ 507,406
2021		3,220	3,034
2020		994	985
2019		584	577
2018		469	529
2017		211	256
2016		233	285
2013		41	44
2012		<u>39</u>	<u>46</u>
TOTAL		<u>\$ 413,145</u>	<u>\$ 513,162</u>

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021	2020	2019
PROPERTY VALUATIONS:				
Land	\$ 86,862,360	\$ 66,561,520	\$ 61,803,460	\$ 59,185,970
Improvements	260,081,870	153,677,720	141,339,600	140,142,030
Personal Property	1,538,166	1,150,346	951,412	1,240,298
Exemptions	<u>(59,778,619)</u>	<u>(8,887,278)</u>	<u>(10,061,113)</u>	<u>(10,003,580)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 288,703,777</u>	<u>\$ 212,502,308</u>	<u>\$ 194,033,359</u>	<u>\$ 190,564,718</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.355	\$ 0.325	\$ 0.335	\$ 0.335
Maintenance**	<u>0.285</u>	<u>0.345</u>	<u>0.338</u>	<u>0.339</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.640</u>	<u>\$ 0.670</u>	<u>\$ 0.673</u>	<u>\$ 0.674</u>
ADJUSTED TAX LEVY*	<u>\$ 1,847,819</u>	<u>\$ 1,423,866</u>	<u>\$ 1,305,861</u>	<u>\$ 1,284,405</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>50.50 %</u>	<u>99.56 %</u>	<u>99.85 %</u>	<u>99.91 %</u>

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

** Maintenance Tax – An unlimited tax rate was approved by voters on May 4, 1972.

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2022**

S E R I E S - 2 0 1 3

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2023	\$ 50,000	\$ 39,450	\$ 89,450
2024	45,000	37,431	82,431
2025	45,000	35,463	80,463
2026	55,000	33,213	88,213
2027	55,000	30,737	85,737
2028	55,000	28,125	83,125
2029	60,000	25,250	85,250
2030	60,000	22,250	82,250
2031	65,000	19,125	84,125
2032	65,000	15,875	80,875
2033	60,000	12,750	72,750
2034	60,000	9,750	69,750
2035	60,000	6,750	66,750
2036	55,000	3,875	58,875
2037	50,000	1,250	51,250
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
	<u>\$ 840,000</u>	<u>\$ 321,294</u>	<u>\$ 1,161,294</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2022**

SERIES - 2015 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2023	\$ 150,000	\$ 46,788	\$ 196,788
2024	160,000	42,138	202,138
2025	165,000	37,263	202,263
2026	165,000	32,313	197,313
2027	170,000	27,288	197,288
2028	180,000	21,925	201,925
2029	185,000	16,222	201,222
2030	195,000	10,041	205,041
2031	200,000	3,375	203,375
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
	<u>\$ 1,570,000</u>	<u>\$ 237,353</u>	<u>\$ 1,807,353</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2022**

S E R I E S - 2 0 1 5

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2023	\$ 50,000	\$ 121,706	\$ 171,706
2024	55,000	120,131	175,131
2025	55,000	118,413	173,413
2026	60,000	116,506	176,506
2027	60,000	114,444	174,444
2028	60,000	112,344	172,344
2029	65,000	110,156	175,156
2030	70,000	107,750	177,750
2031	75,000	105,122	180,122
2032	75,000	102,356	177,356
2033	80,000	99,450	179,450
2034	80,000	96,450	176,450
2035	85,000	93,356	178,356
2036	85,000	90,116	175,116
2037	90,000	86,725	176,725
2038	495,000	75,391	570,391
2039	520,000	55,400	575,400
2040	550,000	34,000	584,000
2041	575,000	11,500	586,500
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
	<u>\$ 3,185,000</u>	<u>\$ 1,771,316</u>	<u>\$ 4,956,316</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2022**

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2023	\$ 40,000	\$ 51,044	\$ 91,044
2024	40,000	49,444	89,444
2025	40,000	47,844	87,844
2026	40,000	46,444	86,444
2027	45,000	45,169	90,169
2028	45,000	43,819	88,819
2029	45,000	42,469	87,469
2030	45,000	41,090	86,090
2031	45,000	39,656	84,656
2032	45,000	38,194	83,194
2033	50,000	36,650	86,650
2034	50,000	35,025	85,025
2035	50,000	33,369	83,369
2036	55,000	31,597	86,597
2037	55,000	29,740	84,740
2038	50,000	27,969	77,969
2039	50,000	26,250	76,250
2040	40,000	24,675	64,675
2041	40,000	23,275	63,275
2042	645,000	11,287	656,287
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
	<u>\$ 1,515,000</u>	<u>\$ 725,010</u>	<u>\$ 2,240,010</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2022**

REFUNDING SERIES - 2020

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2023	\$ 40,000	\$ 48,725	\$ 88,725
2024	40,000	47,925	87,925
2025	45,000	47,075	92,075
2026	40,000	46,225	86,225
2027	45,000	45,375	90,375
2028	45,000	44,475	89,475
2029	45,000	43,575	88,575
2030	45,000	42,619	87,619
2031	45,000	41,606	86,606
2032	255,000	38,231	293,231
2033	270,000	32,325	302,325
2034	280,000	25,963	305,963
2035	290,000	19,194	309,194
2036	305,000	11,938	316,938
2037	325,000	4,063	329,063
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
	<u>\$ 2,115,000</u>	<u>\$ 539,314</u>	<u>\$ 2,654,314</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2022**

S E R I E S - 2 0 2 2

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2023	\$	\$ 313,507	\$ 313,507
2024	45,000	393,500	438,500
2025	45,000	391,250	436,250
2026	50,000	388,875	438,875
2027	50,000	386,375	436,375
2028	50,000	383,875	433,875
2029	50,000	381,375	431,375
2030	50,000	379,000	429,000
2031	55,000	376,638	431,638
2032	60,000	374,050	434,050
2033	55,000	371,462	426,462
2034	60,000	368,800	428,800
2035	65,000	365,831	430,831
2036	65,000	362,744	427,744
2037	65,000	359,656	424,656
2038	60,000	356,688	416,688
2039	60,000	353,837	413,837
2040	65,000	350,869	415,869
2041	70,000	347,663	417,663
2042	65,000	344,456	409,456
2043	735,000	325,456	1,060,456
2044	770,000	288,750	1,058,750
2045	805,000	249,375	1,054,375
2046	840,000	208,250	1,048,250
2047	875,000	165,375	1,040,375
2048	915,000	120,625	1,035,625
2049	955,000	73,875	1,028,875
2050	1,000,000	25,000	1,025,000
	<u>\$ 7,980,000</u>	<u>\$ 8,807,157</u>	<u>\$ 16,787,157</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2022**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2023	\$ 330,000	\$ 621,220	\$ 951,220
2024	385,000	690,569	1,075,569
2025	395,000	677,308	1,072,308
2026	410,000	663,576	1,073,576
2027	425,000	649,388	1,074,388
2028	435,000	634,563	1,069,563
2029	450,000	619,047	1,069,047
2030	465,000	602,750	1,067,750
2031	485,000	585,522	1,070,522
2032	500,000	568,706	1,068,706
2033	515,000	552,637	1,067,637
2034	530,000	535,988	1,065,988
2035	550,000	518,500	1,068,500
2036	565,000	500,270	1,065,270
2037	585,000	481,434	1,066,434
2038	605,000	460,048	1,065,048
2039	630,000	435,487	1,065,487
2040	655,000	409,544	1,064,544
2041	685,000	382,438	1,067,438
2042	710,000	355,743	1,065,743
2043	735,000	325,456	1,060,456
2044	770,000	288,750	1,058,750
2045	805,000	249,375	1,054,375
2046	840,000	208,250	1,048,250
2047	875,000	165,375	1,040,375
2048	915,000	120,625	1,035,625
2049	955,000	73,875	1,028,875
2050	<u>1,000,000</u>	<u>25,000</u>	<u>1,025,000</u>
	<u>\$ 17,205,000</u>	<u>\$ 12,401,444</u>	<u>\$ 29,606,444</u>

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2022**

Description	Original Bonds Issued*	Bonds Outstanding January 1, 2022
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2013	\$ 1,185,000	\$ 885,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2015	2,535,000	1,715,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2015	3,470,000	3,235,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2018	1,660,000	1,555,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2020	2,195,000	2,155,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2022	<u>7,980,000</u>	<u> </u>
TOTAL	<u>\$ 19,025,000</u>	<u>\$ 9,545,000</u>
Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 35,200,000	\$ 39,000,000
Amount Issued	<u>20,105,000</u>	<u>730,000</u>
Remaining to be Issued	<u>\$ 15,095,000</u>	<u>\$ 38,270,000</u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2022</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 45,000	\$ 41,412	\$ 840,000	Bank of Texas Austin, TX
	145,000	51,213	1,570,000	Bank of Texas Austin, TX
	50,000	123,206	3,185,000	Bank of Texas Austin, TX
	40,000	52,644	1,515,000	UMB Bank, N.A. Houston, TX
	40,000	49,725	2,115,000	UMB Bank, N.A. Houston, TX
<u>7,980,000</u>			<u>7,980,000</u>	UMB Bank, N.A. Houston, TX
<u>\$ 7,980,000</u>	<u>\$ 320,000</u>	<u>\$ 318,200</u>	<u>\$ 17,205,000</u>	

Debt Service Fund cash and investment balances as of December 31, 2022: \$ 1,898,314

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,057,373

See Note 3 for interest rate, interest payment dates and maturity dates.

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2022	2021	2020
REVENUES			
Property Taxes	\$ 733,945	\$ 661,634	\$ 646,801
Water Service	337,296	226,797	217,316
Wastewater Service	340,118	290,283	236,598
San Jacinto River Authority Fees	7,496	5,535	5,849
Penalty and Interest	5,904	9,194	964
Tap Connection and Inspection Fees	70,690	229,635	204,800
Investment Revenues	49,073	839	11,693
Sale of Capacity			
Developer Contributions			452,730
Miscellaneous Revenues	19,546	18,017	16,124
TOTAL REVENUES	<u>\$ 1,564,068</u>	<u>\$ 1,441,934</u>	<u>\$ 1,792,875</u>
EXPENDITURES			
Professional Fees	\$ 113,460	\$ 104,878	\$ 92,355
Contracted Services	122,401	121,845	104,633
Purchased Water Service	20,540		
Utilities	102,642	43,929	58,552
Repairs and Maintenance	326,561	235,015	232,680
San Jacinto River Authority Assessments	4,736	4,736	
Other	225,644	257,447	156,050
Capital Outlay	198,343	303,954	823,793
Debt Service:			
Capital Lease Principal	12,242	11,813	11,400
Capital Lease Interest	2,388	2,817	3,231
TOTAL EXPENDITURES	<u>\$ 1,128,957</u>	<u>\$ 1,086,434</u>	<u>\$ 1,482,694</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 435,111</u>	<u>\$ 355,500</u>	<u>\$ 310,181</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	<u>\$ 29,122</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 464,233	\$ 355,500	\$ 310,181
BEGINNING FUND BALANCE	<u>2,605,343</u>	<u>2,249,843</u>	<u>1,939,662</u>
ENDING FUND BALANCE	<u>\$ 3,069,576</u>	<u>\$ 2,605,343</u>	<u>\$ 2,249,843</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2019	2018	2022	2021	2020	2019	2018
\$ 588,050	\$ 537,563	47.0 %	46.0 %	36.0 %	29.8 %	45.2 %
187,649	182,120	21.6	15.7	12.1	9.5	15.4
200,686	196,388	21.7	20.1	13.2	10.2	16.6
23,037	48,223	0.5	0.4	0.3	1.2	4.1
3,258	4,447	0.4	0.6	0.1	0.2	0.4
26,475	30,075	4.5	15.9	11.4	1.3	2.5
40,314	19,636	3.1	0.1	0.7	2.0	1.7
	75,291					6.3
897,243	83,689			25.3	45.4	7.1
8,151	8,706	1.2	1.2	0.9	0.4	0.7
<u>\$ 1,974,863</u>	<u>\$ 1,186,138</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 91,327	\$ 82,252	7.3 %	7.3 %	5.2 %	4.6 %	6.9 %
105,018	102,480	7.8	8.5	5.8	5.3	8.6
		1.3				
54,640	52,791	6.6	3.0	3.3	2.8	4.5
336,483	202,555	20.9	16.3	13.0	17.0	17.1
214	15,618	0.3	0.3			1.3
119,656	98,897	14.4	17.9	8.7	6.1	8.3
930,562	113,435	12.7	21.1	45.9	47.1	9.6
11,001	10,615	0.8	0.8	0.6	0.6	0.9
3,630	4,015	0.2	0.2	0.2	0.2	0.3
<u>\$ 1,652,531</u>	<u>\$ 682,658</u>	<u>72.3 %</u>	<u>75.4 %</u>	<u>82.7 %</u>	<u>83.7 %</u>	<u>57.5 %</u>
<u>\$ 322,332</u>	<u>\$ 503,480</u>	<u>27.7 %</u>	<u>24.6 %</u>	<u>17.3 %</u>	<u>16.3 %</u>	<u>42.5 %</u>
<u>\$ 145,511</u>	<u>\$ 24,244</u>					
\$ 467,843	\$ 527,724					
1,471,819	944,095					
<u>\$ 1,939,662</u>	<u>\$ 1,471,819</u>					

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2022	2021	2020
REVENUES			
Property Taxes	\$ 687,899	\$ 657,411	\$ 639,332
Penalty and Interest	7,756	8,465	6,185
Investment Revenues	14,674	295	3,338
Miscellaneous Revenues			2,252
TOTAL REVENUES	\$ 710,329	\$ 666,171	\$ 651,107
EXPENDITURES			
Tax Collection Expenditures	\$ 14,155	\$ 14,649	\$ 17,443
Debt Service Principal	320,000	310,000	285,000
Debt Service Interest and Fees	320,700	330,919	344,161
Bond Issuance Costs			133,008
Payment to Refunded Bond Escrow Agent			18,336
TOTAL EXPENDITURES	\$ 654,855	\$ 655,568	\$ 797,948
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 55,474	\$ 10,603	\$ (146,841)
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	\$ 394,625	\$	\$
Refunding Bonds			2,195,000
Payment to Refunded Bond Escrow Agent			(2,007,426)
Bond Discount			(58,430)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 394,625	\$ - 0 -	\$ 129,144
NET CHANGE IN FUND BALANCE	\$ 450,099	\$ 10,603	\$ (17,697)
BEGINNING FUND BALANCE	585,729	575,126	592,823
ENDING FUND BALANCE	\$ 1,035,828	\$ 585,729	\$ 575,126
TOTAL ACTIVE RETAIL WATER CONNECTIONS	775	725	612
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	752	702	591

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2019	2018	2022	2021	2020	2019	2018
\$ 663,044	\$ 654,295	96.8 %	98.7 %	98.3 %	97.0 %	97.6 %
12,003	9,176	1.1	1.3	0.9	1.8	1.4
7,901	6,549	2.1		0.5	1.2	1.0
				0.3		
<u>\$ 682,948</u>	<u>\$ 670,020</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 16,225	\$ 15,200	2.0 %	2.2 %	2.7 %	2.4 %	2.3 %
280,000	240,000	45.0	46.5	43.8	41.0	35.8
370,938	350,770	45.1	49.7	52.9	54.3	52.4
				20.4		
				2.8		
<u>\$ 667,163</u>	<u>\$ 605,970</u>	<u>92.1 %</u>	<u>98.4 %</u>	<u>122.6 %</u>	<u>97.7 %</u>	<u>90.5 %</u>
<u>\$ 15,785</u>	<u>\$ 64,050</u>	<u>7.9 %</u>	<u>1.6 %</u>	<u>(22.6) %</u>	<u>2.3 %</u>	<u>9.5 %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ 15,785	\$ 64,050					
<u>577,038</u>	<u>512,988</u>					
<u>\$ 592,823</u>	<u>\$ 577,038</u>					
<u>517</u>	<u>514</u>					
<u>496</u>	<u>493</u>					

See accompanying independent auditor's report.

**FAR HILLS UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2022**

District Mailing Address - Far Hills Utility District
10320 Cude Cemetery Road
Willis, TX 77318

District Telephone Number - (713) 237-1221

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2022	Expense Reimbursements for the year ended December 31, 2022	<u>Title</u>
Jim Haymon	11/22 11/26 (Elected)	\$ 6,900	\$ 1,003	President
Christopher Kuhl	11/22 11/26 (Elected)	\$ 2,700	\$ 1,899	Vice President
Melinda M. Shelly	11/20 11/24 (Elected)	\$ 3,150	\$ 2,245	Secretary
David Bock	11/22 11/26 (Elected)	\$ 2,700	\$ 820	Assistant Secretary
Rich Cutler	11/20 11/24 (Elected)	\$ 2,250	\$ -0-	Director

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

Submission date of most recent District Registration Form: February 6, 2023

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on July 9, 2003. Fees of Office are the amounts paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2022

	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2022</u>	<u>Title</u>
Consultants:			
Radcliffe Bobbitt Adams Polley PLLC	09/14/94	\$ 51,751 \$ 161,150	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	12/14/94	\$ 21,750 \$ 15,500	Auditor Bond Related
Myrtle Cruz, Inc.	05/01/11	\$ 40,725	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	06/09/99	\$ 1,445	Delinquent Tax Attorney
Langford Engineering, Inc.	10/10/01	\$ 206,556	Engineer
Blicht Associates, Inc.	11/12/09	\$ 105,258	Financial Advisor
M. Marlon Ivy & Associates, Inc.	08/15/15	\$ 306,467	Operator
Montgomery County Tax Assessor/Collector	10/01/15	\$ 373	Tax Assessor/ Collector
Terry Holland	01/12/12	\$ -0-	Investment Officer

See accompanying independent auditor's report.

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

April 13, 2023

Board of Directors
Far Hills Utility District
Montgomery County, Texas

We have audited the financial statements of the governmental activities and each major fund of Far Hills Utility District (the "District") for the year ended December 31, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated December 8, 2016, and subsequent audit continuance letters. Professional standards also require that we communicate to you the following information related to our audit. For the purposes of this letter, the term "management" refers to the Board of Directors and/or District consultants.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies used by the District, including new accounting policies, if any, that have been adopted and implemented during the current fiscal year, are discussed in Note 2. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. The financial statement disclosures are neutral, consistent, and clear.

Accounting estimates are an integral part of the financial statements and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the District's financial statements were management's estimate of depreciable lives of capital assets and amounts recorded as due to developer. Depreciation of infrastructure assets is based on industry wide accepted estimated useful lives taken on a straight-line basis. Amounts shown as due to developer are based on final construction costs plus an estimated 15% for engineering and other fees. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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. The District's bookkeeper and Board of Directors will be provided with all such adjustments.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 13, 2023.

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 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 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 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.

Other Matters

We were engaged to perform the following non-attest services for the District: (1) preparation of financial statements and related notes and schedules in conformity with accounting principles generally accepted in the United States of America and (2) preparation of capital asset schedules. These services were performed based on information provided by you. We performed these services in accordance with applicable professional standards. The non-attest services we performed are limited to those specifically defined and did not result in assuming management responsibilities.

We applied certain limited procedures to the Management's Discussion and Analysis and the budgetary comparison schedule for the General Fund, 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.

We were engaged to report on supplementary information required by the Texas Commission on Environmental Quality, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Directors of the District and is not intended to be, and should not be, used by anyone other than the specified party.

Sincerely,



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

Far Hills Utility District
Trial Balance Worksheet - Grouped by Type

GENERAL FUND

Account	Type	Description	12/31/21 Adjusted Balance	12/31/22 Unadjusted Balance	Adjusting JE Adjustments	12/31/22 Adjusted Balance	12/31/22 WP Reference
1-1120	A	CASH IN BANK - COMPASS - COLL	22,407.80	46,505.08		46,505.08	B-1
1-1121.001	A	CASH IN BANK-COMPASS-NEW OP	163,536.97	0.00		0.00	B-1
1-1122	A	CASH IN BANK	10,263.56	0.00		0.00	B-1
1-1123	A	CASH IN BANK - D/R PNC	213.10	0.00		0.00	B-1
1-1124	A	DEPOSIT REFUND ACCT (OT)	1,633.81	3,362.11		3,362.11	B-1
1-1125	A	CASH IN BANK- CENTRAL COLLECT	95,973.82	61,089.45		61,089.45	B-1
1-1132	A	MMS - COMPASS BANK	1,935.00	0.00		0.00	B-1
1-1133	A	MONEY MARKET SAVINGS	2,636,440.88	3,093,878.23		3,093,878.23	B-1
1-1150	A	SERVICE ACCTS-REC	38,062.47	47,291.10		47,291.10	E-1
1-1151	A	TAXES RECEIVABLE	314,173.93	465,106.35		413,145.21	D-1
		GOF #11 To reclass W&S Penalty, adjust taxes- GF Side			(51,961.14)		
1-1154	A	ALLOWANCE FOR DOUBTFUL ACCT	(3,000.00)	(3,000.00)		(3,000.00)	PASS
1-1155	A	BUILDER DAMAGES RECEIVABL	(2,147.05)	(4,835.30)		(4,835.30)	PASS
1-1168	A	PREPAID INSURANCE	6,497.65	7,875.07		7,875.07	PASS
1-1172	A	DUE FROM TAX ACCT	307,174.03	(170,594.22)		329,583.95	A-2, D-1
		GOF #11 To reclass W&S Penalty, adjust taxes- GF Side			500,178.17		
1-1173	A	DUE FROM DEBT SERVICE	3,863.35	3,863.35		0.00	
		GOF #10 To write off immaterial interfund Rec from DSF to GOF			(3,863.35)		
1-1174	A	DUE FROM CONSTRUCTION/CPF	5,451.00	(15,691.00)		184,916.17	I-2, A-4
		GOF #3 To adjust for annex and capital outlay			185,107.17		
		GOF #4 To make POS and AUP due back to GOF for audit fees related to Bond Sale			15,500.00		
1-1300	A	SIR - CONROE MANOR	805.36	805.36		0.00	F-1
		GOF #7 To write off stale annex's per bkkp			(805.36)		
1-2703	A	TEXAS HOLDINGS TRUST ANNEX	0.00	0.00		1,660.00	F-1
		GOF #2 To reclass into annex account, clear view, random tax booking into another acct			412.20		
		GOF #3 To adjust for annex and capital outlay			16,221.23		
		GOF #5 To Reclass deposits into annex acct			(14,973.43)		
Total Assets			3,603,285.68	3,535,655.58	645,815.49	4,181,471.07	
1-2110	L	TRADE ACCOUNTS PAYABLE	(98,128.14)	(97,187.91)		(97,187.91)	N-1
1-2120	L	NOTES PAYABLE	0.00	14,630.60		0.00	
		GOF #13 To reclass to lease expense per analysis			(14,630.60)		
1-2135	L	DUE TO TCEQ	(2,299.52)	(3,195.69)		(3,195.69)	E-1
1-2161	L	CUSTOMER METER DEPOSIT	(169,446.25)	(219,446.25)		(184,871.25)	E-1-2
		GOF #12 To adjust customer deposits per operator listing			34,575.00		
1-2162	L	BUILDER METER DEPOSITS	2,000.00	12,000.00		0.00	
		GOF #1 To reclass Builder Refunds to Expense			(12,000.00)		
1-2177	L	DUE TO/FROM DEVELOPER	0.00	(7,500.00)		0.00	A-1

**Far Hills Utility District
Trial Balance Worksheet - Grouped by Type**

Account	Type	Description	12/31/21 Adjusted Balance	12/31/22 Unadjusted Balance	Adjusting JE Adjustments	12/31/22 Adjusted Balance	12/31/22 WP Reference
1-2181	L	GOF #5 To Reclass deposits into annex acct DUE TO/FR LANIER EASEMENT	(7.50)	(7.50)	7,500.00	0.00	F-1
1-2182	L	GOF #7 To write off stale annex's per bkcp DUE TO/FR WGB PARK	0.00	(4,011.75)	7.50 4,011.75	0.00	
1-2185	L	GOF #8 To reclass projects from M&R into Capital Outlay- adjust outdated WGB Billings into M&R DUE TO/FR CLEARLAKE ASSET MGMT	11,675.06	11,675.06	331.87	12,006.93	I-2
1-2702	L	GOF #2 To reclass into annex account, clear view, random tax booking into another acct DEFERRED TAX REVENUE	(741,736.48)	(892,668.90)	64,020.73	(828,648.17)	D-1
1-2704	L	GOF #11 To reclass W&S Penalty, adjust taxes- GF Side Level TX Corp Annex GOF #6 To reclass annex deposit into liability annex acct	0.00	0.00	(10,000.00)	(10,000.00)	F-1
Total Liabilities			<u>(997,942.83)</u>	<u>(1,185,712.34)</u>	<u>73,816.25</u>	<u>(1,111,896.09)</u>	
1-3000	Q	UNALLOCATED FUND BALANCE	(2,249,845.86)	(2,605,342.85)		(2,605,342.85)	~
1-3001	Q	TRANSFER FROM CONSTRUCTION GOF #3 To adjust for annex and capital outlay	0.00	0.00	(29,122.00)	(29,122.00)	I-2/A-4
Total Equity			<u>(2,249,845.86)</u>	<u>(2,605,342.85)</u>	<u>(29,122.00)</u>	<u>(2,634,464.85)</u>	
Total Liabilities & Equity			<u>(3,247,788.69)</u>	<u>(3,791,055.19)</u>	<u>44,694.25</u>	<u>(3,746,360.94)</u>	
1-4100	R	CUSTOMER SER FEE-WATER GOF #12 To adjust customer deposits per operator listing	(226,797.20)	(302,720.75)	(34,575.00)	(337,295.75)	E-1
1-4120	R	RECONNECTION FEES	(15,360.00)	(14,030.00)		(14,030.00)	E-1
1-4200	R	CUSTOMER SER FEE-SEWER	(290,282.94)	(340,117.58)		(340,117.58)	E-1
1-4202	R	SEWER INSPECTION FEES	(44,635.00)	(18,540.00)		(18,540.00)	E-1
1-4300	R	REG WATER AUTH REVENUE	(5,534.90)	(7,496.40)		(7,496.40)	E-1
1-4310	R	TCEQ REVENUE	(2,414.22)	(3,191.34)		(3,191.34)	E-1
1-4330	R	PENALTIES & INT SVC ACCTS GOF #11 To reclass W&S Penalty, adjust taxes- GF Side	(4,453.73)	(4,341.85)	(1,562.41)	(5,904.26)	E-1
1-4331	R	PENALTY & INTEREST - TAXES GOF #11 To reclass W&S Penalty, adjust taxes- GF Side	(4,740.45)	(7,443.50)	7,443.50	0.00	
1-4600	R	TAP CONNECTION FEES	(185,000.00)	(52,150.00)		(52,150.00)	E-1
1-4610	R	TAP CONNECTION EXPENSE(CONTRA) GOF #9 To reclass tap expense to inspection fees	98,815.00	46,633.45	(9,601.45)	37,032.00	W-5
1-5380	R	MISCELLANEOUS INCOME	(243.64)	(2,325.00)		(2,325.00)	E-1
1-5391	R	INTEREST ON TEMP INVEST	(839.35)	(49,072.99)		(49,072.99)	W-1
1-5395	R	Developer Contribution	0.00	(10,000.00)		0.00	A-1-1

**Far Hills Utility District
Trial Balance Worksheet - Grouped by Type**

Account	Type	Description	12/31/21 Adjusted Balance	12/31/22 Unadjusted Balance	Adjusting JE Adjustments	12/31/22 Adjusted Balance	12/31/22 WP Reference
		GOF #6 To reclass annes deposit into liability annex acct			10,000.00		
1-5398	R	Maintenance Tax Revenue	(661,633.64)	(215,825.87)		(733,944.72)	D-1
		GOF #11 To reclass W&S Penalty, adjust taxes- GF Side			(518,118.85)		
		Total Revenue	<u>(1,343,120.07)</u>	<u>(980,621.83)</u>	<u>(546,414.21)</u>	<u>(1,527,036.04)</u>	
1-6201	E	PURCHASED SEWER SERVICE/SLUDGE HAUL	4,032.00	0.00		0.00	PASS
1-6202	E	SLUDGE HAUL	11,923.00	19,710.72		19,710.72	W-1
1-6275	E	SEWER INSPECTION EXP	16,513.00	7,728.00		17,329.45	W-5
		GOF #9 To reclass tap expense to inspection fees			9,601.45		
1-6310	E	DIRECTORS FEES	15,350.00	17,400.00		17,400.00	W-4-1
1-6318	E	DELINQUENT TAX ATTORNEY FEES	1,099.71	1,219.49		1,219.49	PASS
1-6320	E	LEGAL FEES	54,830.50	52,905.00		51,418.73	W-2
		GOF #2 To reclass into annex account, clear view, random tax booking into another acct			(1,486.27)		
1-6321	E	AUDIT FEES	21,000.00	37,250.00		21,750.00	W-4
		GOF #4 To make POS and AUP due back to GOF for audit fees related to Bond Sale			(15,500.00)		
1-6322	E	ENGINEERING FEES	29,046.58	222,776.99		40,290.84	W-3
		GOF #3 To adjust for annex and capital outlay			(182,486.15)		
1-6324	E	LABORATORY EXPENSES	17,965.64	23,124.71		23,124.71	PASS
1-6326	E	PERMIT FEES	7,518.27	8,064.82		8,064.82	PASS
1-6327	E	REGULATORY ASSESS FEE	2,299.52	3,195.69		3,195.69	E-1
1-6328	E	SJRWA FEE	4,735.83	20,539.50		20,539.50	W-6
1-6332	E	SERVICE ACCOUNT COLLECTION	93,685.10	92,216.28		92,216.28	PASS
1-6333	E	BOOKKEEPING EXP	28,160.00	30,185.00		30,185.00	W-4
1-6335	E	REPAIRS & MAINTENANCE	235,015.11	506,635.89		314,561.31	W-1-1
		GOF #8 To reclass projects from M&R into Capital Outlay- adjust outdated WGB Billings into M&R			(188,062.83)		
		GOF #8 To reclass projects from M&R into Capital Outlay- adjust outdated WGB Billings into M&R			(4,011.75)		
1-6338	E	LEGAL NOTICES	0.00	845.90		845.90	W-2
1-6340	E	Printing & Office Expenses	23,084.10	27,547.94		27,547.94	PASS
1-6342	E	CHEMICALS-GENERAL	13,942.50	26,293.28		26,293.28	W-1
1-6352.001	E	UTILITIES	43,928.76	102,641.99		102,641.99	W-1
1-6353	E	INSURANCE & SURETY BOND	20,080.92	25,548.30		25,548.30	PASS
1-6354	E	TRAVEL & PER DIEM	8,797.97	9,091.99		9,091.99	PASS
1-6370	E	MEMBERSHIP FEES	700.00	0.00		0.00	PASS
1-6399	E	GARBAGE EXPENSE	3,634.57	3,027.53		3,027.53	PASS
1-6400	E	SECURITY	5,571.04	0.00		0.00	PASS
1-6514	E	PAYROLLTAXES	1,173.85	547.95		547.95	PASS A-1-2
1-7200	E	METER PROGRAM LEASE	14,630.60	0.00		14,630.60	M-1

**Far Hills Utility District
Trial Balance Worksheet - Grouped by Type**

Account	Type	Description	12/31/21 Adjusted Balance	12/31/22 Unadjusted Balance	Adjusting JE Adjustments	12/31/22 Adjusted Balance	12/31/22 WP Reference
1-7300	E	GOF #13 To reclass to lease expense per analysis CAPITAL OUTLAY	303,954.46	0.00	14,630.60	198,342.58	I-2
		GOF #3 To adjust for annex and capital outlay			10,279.75		
		GOF #8 To reclass projects from M&R into Capital Outlay- adjust outdated WGB Billings into M&R			188,062.83		
1-7395	E	MISCELLANEOUS EXPENSES	4,950.05	(2,475.53)		10,401.31	PASS
		GOF #2 To reclass into annex account, clear view, random tax booking into another acct			742.20		
		GOF #5 To Reclass deposits into annex acct			7,473.43		
		GOF #7 To write off stale annex's per bkkp			797.86		
		GOF #10 To write off immaterial interfund Rec from DSF to GOF			3,863.35		
1-7396	E	BUILDER DEPOSIT REFUNDS	0.00	0.00		12,000.00	W-7
		GOF #1 To reclass Builder Refunds to Expense			12,000.00		
		Total Expense	<u>987,623.08</u>	<u>1,236,021.44</u>	<u>(144,095.53)</u>	<u>1,091,925.91</u>	
		Totals	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	
		Net Profit/(Loss)	<u>355,496.99</u>	<u>(255,399.61)</u>	<u>690,509.74</u>	<u>435,110.13</u>	

**Far Hills Utility District
Trial Balance Worksheet - Grouped by Type**

Tax Fund

Account	Type	Description	12/31/21 Adjusted Balance	12/31/22 Unadjusted Balance	Adjusting JE Adjustments	12/31/22 Adjusted Balance	12/31/22 WP Reference
2-1120	A	CASH IN BANK	2,971.94	0.00		0.00	B-2
2-1121	A	CASH IN BANK - TAX CHECKING	299,721.47	714,622.09		714,622.09	B-2
2-1122	A	CASH WITH TAX A/C	459,748.17	459,748.17		139,980.22	D-2
		Tax #1 To adjust Taxes- Tax fund side			(319,767.95)		
2-1130	A	MMS- TEXPOOL	1,000.00	66,205.98		66,205.98	B-2
2-1150	A	TAXES RECEIVABLE - CURRENT	287,904.96	455,341.55		507,406.37	D-1
		Tax #1 To adjust Taxes- Tax fund side			52,064.82		
2-1151	A	TAXES RECEIVABLE - PRIOR YEARS	8,676.42	5,858.96		5,755.28	D-1
		Tax #1 To adjust Taxes- Tax fund side			(103.68)		
		Total Assets	1,060,022.96	1,701,776.75	(267,806.81)	1,433,969.94	
2-2171	L	DUE TO GENERAL FUND	(307,174.03)	170,594.22		(329,583.95)	A-1, D-1
		Tax #1 To adjust Taxes- Tax fund side			(500,178.17)		
		Total Liabilities	(307,174.03)	170,594.22	(500,178.17)	(329,583.95)	
2-3000	Q	UNALLOCATED FUND BALANCE	(52,458.58)	(53,491.23)		(53,491.23)	~
2-3008	Q	INVESTMENT IN UNCOLL TAX	(699,357.70)	(863,976.83)		(1,030,717.98)	D-1
		Tax #1 To adjust Taxes- Tax fund side			(166,741.15)		
2-3913	Q	TRANS TO DEBT SERV FUND	651,689.22	662,485.98		662,485.98	A-3/D-1
		Total Equity	(100,127.06)	(254,982.08)	(166,741.15)	(421,723.23)	
		Total Liabilities & Equity	(407,301.09)	(84,387.86)	(666,919.32)	(751,307.18)	
2-4320	R	PROPERTY TAXES	(657,410.90)	(1,626,631.41)		(687,898.82)	D-1
		Tax #1 To adjust Taxes- Tax fund side			938,732.59		
2-4331	R	PENALTY AND INT ON TAX ACCTS	(8,464.24)	(3,749.14)		(7,755.60)	D-2
		Tax #1 To adjust Taxes- Tax fund side			(4,006.46)		
2-5391	R	INTEREST ON TEMP INVEST	(90.30)	(352.20)		(352.20)	PASS
		Total Revenue	(665,965.44)	(1,630,732.75)	934,726.13	(696,006.62)	
2-6320	E	LEGAL FEES	1,099.71	0.00		0.00	PASS
2-6331	E	TAX ASSESSOR-COLLECTOR FEE	312.00	0.00		0.00	PASS
2-6338	E	LEGAL NOTICES & OTHER PUBL\	470.00	845.90		845.90	PASS
2-6340	E	PRINTING & OFFICE EXP	318.21	775.43		775.43	PASS
2-6357	E	CENTRAL APPRAISAL DISTRICT	11,043.65	11,722.53		11,722.53	D-2-1
		Total Expense	13,243.57	13,343.86	0.00	13,343.86	
		Totals	0.00	0.00	0.00	0.00	
		Net Profit/(Loss)	652,721.87	1,617,388.89	(934,726.13)	682,662.76	

A-2

Far Hills Utility District
Trial Balance Worksheet - Grouped by Type

Debt Service Fund

Account	Type	Description	12/31/21 Adjusted Balance	12/31/22 Unadjusted Balance	Adjusting JE Adjustments	12/31/22 Adjusted Balance	12/31/22 WP Reference
3-1130	A	MMS-COMPASS BANK	70,098.79	0.00		0.00	B-3
3-1132	A	MONEY MARKET SAVINGS	466,003.15	977,506.11		977,506.11	B-3
Total Assets			536,101.94	977,506.11	0.00	977,506.11	
3-2135	L	ACCRUED INT. AT TIME OF SALE	0.00	(15,346.51)		(15,346.51)	O-2
3-2171	L	DUE TO GENERAL FUND	(3,863.35)	(3,863.35)		0.00	
		DSF #2 To reflect other side of entry- DSF Side			3,863.35		
Total Liabilities			(3,863.35)	(19,209.86)	3,863.35	(15,346.51)	
3-3000	Q	UNALLOCATED FUND BALANCE	(522,668.73)	(532,238.59)		(532,238.59)	~
3-3010	Q	ALLOCATED FOR BOND INTEREST	0.00	(394,625.00)		(394,625.00)	O-2
3-3952	Q	TSFR FROM TAX ACCT	(651,689.22)	(662,485.98)		(662,485.98)	A-2/D-1
Total Equity			(1,174,357.95)	(1,589,349.57)	0.00	(1,589,349.57)	
Total Liabilities & Equity			(1,178,221.30)	(1,608,559.43)	3,863.35	(1,604,696.08)	
3-5391	R	INTEREST ON TEMP INVEST	(204.94)	(10,458.33)		(10,458.33)	W-1
3-5393	R	MISC REVENUE	0.00	0.00		(3,863.35)	
		DSF #2 To reflect other side of entry- DSF Side			(3,863.35)		
Total Revenue			(204.94)	(10,458.33)	(3,863.35)	(14,321.68)	
3-6341	E	MISC EXPENSE	0.00	61.64		61.64	PASS
3-6359	E	MISC EXPENSES	55.55	0.00		0.00	PASS
3-7360	E	BOND INTEREST EXPENSE	328,418.75	318,950.01		318,200.01	O-1
		DSF #1 To true up interest and Fiscal agent fees			(750.00)		
3-7363	E	FISCAL AGENT FEES	2,500.00	1,750.00		2,500.00	O-1
		DSF #1 To true up interest and Fiscal agent fees			750.00		
3-7365	E	ARBITRAGE EXPENSE	1,350.00	750.00		750.00	W-4
3-7395	E	BOND PRINCIPAL	310,000.00	320,000.00		320,000.00	O-1
Total Expense			642,324.30	641,511.65	0.00	641,511.65	
Totals			0.00	0.00	0.00	0.00	
Net Profit/(Loss)			(642,119.36)	(631,053.32)	3,863.35	(627,189.97)	

Far Hills Utility District
Trial Balance Worksheet - Grouped by Type

CAPITAL PROJECTS FUND

Account	Type	Description	12/31/21 Adjusted Balance	12/31/22 Unadjusted Balance	Adjusting JE Adjustments	12/31/22 Adjusted Balance	12/31/22 WP Reference
4-1120	A	CASH IN BANK-COMPASS BANK	20,488.89	0.00		0.00	B-4
4-1121	A	CASH IN BANK- CENTRAL BANK CPF #2 To adjust per Bond Analysis	880.00	6,984,512.07		18,400.00	B-4
4-1132	A	MONEY MARKET SAVINGS	3,480.87	7,249,614.32	(6,966,112.07)	7,249,614.32	B-4
4-1133	A	MONEY MARKET FUNDS	221,065.30	0.00		0.00	B-4
Total Assets			<u>245,915.06</u>	<u>14,234,126.39</u>	<u>(6,966,112.07)</u>	<u>7,268,014.32</u>	
4-2110	L	ACCOUNTS PAYABLE CPF #3 For Report Presentation- not for bkkp showing as Due to Developer	0.00	(610,832.40)		(5,845.90)	I-2
4-2171	L	DUE TO GF CPF #1 To adjust for other side of Entry	(5,451.00)	15,691.00		(184,916.17)	I-2, A-1
Total Liabilities			<u>(5,451.00)</u>	<u>(595,141.40)</u>	<u>404,379.33</u>	<u>(190,762.07)</u>	
4-3000	Q	UNALLOCATED FUND BALANCE CPF #2 To adjust per Bond Analysis	1,221,216.17	1,221,400.63		(240,464.06)	~
4-3010	Q	ALL. FR SALE OF BONDS-PRIOR IS CPF #2 To adjust per Bond Analysis	(1,461,864.69)	(1,461,864.69)	(1,461,864.69)	0.00	
4-3913	Q	TRF TO DEBT SVC FUND - EARNING CPF #2 To adjust per Bond Analysis	0.00	379,278.49	1,461,864.69	0.00	
4-3955	Q	BOND PROCEEDS CPF #2 To adjust per Bond Analysis	0.00	(14,999,747.06)	(379,278.49)	(7,585,375.00)	O-2
4-3956	Q	DEVELOPER CONTRIBUTIONS CPF #2 To adjust per Bond Analysis	0.00	604,986.50	7,414,372.06	0.00	
4-3957	Q	BOND DISCOUNT CPF #2 To adjust per Bond Analysis	0.00	235,108.15	(604,986.50)	43,195.00	O-2
4-3959	Q	TRANSFER TO OPERATING CPF #1 To adjust for other side of Entry	0.00	0.00	(191,913.15)	29,122.00	I-2/A-1
Total Equity			<u>(240,648.52)</u>	<u>(14,020,837.98)</u>	<u>6,267,315.92</u>	<u>(7,753,522.06)</u>	
Total Liabilities & Equity			<u>(246,099.52)</u>	<u>(14,615,979.38)</u>	<u>6,671,695.25</u>	<u>(7,944,284.13)</u>	
4-5391.000	R	INTEREST ON INVESTMENTS	(77.67)	(16,768.73)		(16,768.73)	W-1
Total Revenue			<u>(77.67)</u>	<u>(16,768.73)</u>	<u>0.00</u>	<u>(16,768.73)</u>	
4-7395	E	OTHER EXPENSE	262.13	641.04		641.04	PASS
4-7396	E	COST OF ISSUANCE CPF #2 To adjust per Bond Analysis	0.00	397,980.68		520,912.33	I-2
4-7397	E	CAPITAL OUTLAY CPF #1 To adjust for other side of Entry CPF #2 To adjust per Bond Analysis CPF #3 For Report Presentation- not for bkkp showing as Due to Developer	0.00	0.00	122,931.65	171,485.17	I-2
Total Expense			<u>262.13</u>	<u>398,621.72</u>	<u>294,416.82</u>	<u>693,038.54</u>	A-4

**Far Hills Utility District
Trial Balance Worksheet - Grouped by Type**

Account	Type	Description	12/31/21 Adjusted Balance	12/31/22 Unadjusted Balance	Adjusting JE Adjustments	12/31/22 Adjusted Balance	12/31/22 WP Reference
Totals			<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	
Net Profit/(Loss)			<u>(184.46)</u>	<u>(381,852.99)</u>	<u>(294,416.82)</u>	<u>(676,269.81)</u>	

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April 13, 2023

Board of Directors
Far Hills Utility District
Montgomery County, Texas

In planning and performing our audit of the financial statements of Far Hills Utility District (the “District”) as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (“internal control”) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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 of the District’s financial statements 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.

Last year, and again this year, we observed the following matters that we consider to be material weaknesses.

Material Weaknesses

The District’s management consists of an elected Board of Directors (the “Directors”). The day-to-day operations are performed by private companies (“Consultants”) under contract with the District. The Directors of the District supervise the performance of the Consultants. The Consultants can be part of the District’s system of internal control; however, the Consultants are not members of management. Ultimately, the Directors of the District are responsible for the design and implementation of the system of internal control.

As is common within the system of internal control of most small organizations, the accounting function of the District does not include the preparation of the financial statements complete with footnotes in accordance with generally accepted accounting principles in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness in internal control over financial reporting.

Material Weaknesses (Continued)

During the course of performing an audit, the auditor prepares various journal entries to present the financial statements on the government-wide basis of accounting. Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control. In addition, the District's Management relies on the District's auditor to prepare the capital asset and depreciation schedules and post adjustments related to the presentation of the capital assets in the government-wide financial statements. This reliance on the auditor to perform this function is considered to be a material weakness in the system of internal control. Auditing standards do not make exceptions for reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of auditing standards to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the material weaknesses above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor.

Management's Response

The District's Board of Directors is appointed or elected from the general population and the Directors do not necessarily have governmental accounting expertise. The Board engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal and professional engineering services. Based on the auditor's unmodified opinion and after reading the financial statements, the Board believes the financial statements to be materially correct. The Board does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

Conclusion

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas