

Presentation of 2021-2022
audit of District financial
records

Wathen, DeShong & Juncker,
LLP

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA
Troy W. Domingue, CPA



Stanley (Chip) Majors, Jr., CPA.CITP, CGMA
Jane P. Burns, CPA, CDFA
Jeremy R. Triska, CPA

September 19, 2022

To the Board of Directors
Lumberton Municipal Utility District
Lumberton, Texas

We are pleased to present this report related to our audit of the basic financial statements of the Lumberton Municipal Utility District (the Organization) as of and for the year ended June 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Organization's financial reporting process.

This report is intended solely for the information and use of the Governing Board and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Organization.

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

Our Responsibilities With Regard to the Financial Statement and Compliance Audit

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated May 13, 2022. Our audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated May 11, 2022 regarding the planned scope and timing of our audit and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Organization. The Organization did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. Significant accounting estimates reported in the financial statements as of and for the fiscal year ended June 30, 2022 included earned but unbilled utility service revenue, the provision for uncollectible utility service receivables, accrued pension liability, and current depreciation expense.

Audit Adjustments and Uncorrected Misstatements

Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the Organization are attached

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Observations About the Audit Process**Disagreements With Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Difficult or Contentious Matters That Required Consultation

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

39125 Lumberton MUD 2022

Year End: June 30, 2022

Journal Entries: Adjusting - W&S Fund

Date: 7/1/2021 To 6/30/2022

8010

Prepared by	Prepared by	Manager Review
Partner Review	EQCR Review	Other Review

Number	Account No	Name	Debit	Credit	Amount Chg	Net Income (Loss)
Net Income (Loss) Before Adjustments						68,984.07
2	1180	INVENTORY		65,237.18		
2	6044.1	R & M - MATLS. SYSTEM	32,618.59			
2	6044.2	R & M - MATLS. SYSTEM	32,618.59			
Adjust Inventory for additional NonInventory Items not originally deducted.			65,237.18	65,237.18	(65,237.18)	3,746.89
3	2511	PREMIUM - 2018 BOND REFUNDING		46,622.00		
3	2511	PREMIUM - 2018 BOND REFUNDING	42,415.00			
3	6092.3	BOND INTEREST EXPENSE	46,622.00			
3	6092.3	BOND INTEREST EXPENSE		42,415.00		
Correct 2018 Bond Premium Amortization for current year.			89,037.00	89,037.00	(4,207.00)	(460.11)
6	1152	UTILITY BILLING EARNED	70,195.70			
6	4100	SERVICE FEES - WATER		35,097.85		
6	4200	SERVICE FEES - SEWER		35,097.85		
Adjustment for 6-30-22			70,195.70	70,195.70	70,195.70	69,735.59
7	6044.02	R & M - MATLS. SYSTEM		3,113.41		
7	6044.11	R & M - MATLS. SYSTEM		3,113.41		
7	6070.03	CONTRA R & M SYSTEM	6,226.82			
To clear contra account to water/sewer			6,226.82	6,226.82	0.00	69,735.59
9	2125	DUE TO DEBT SERVICE FUND		25,000.00		
9	5396	TRANSFER OUT	25,000.00			
Reclass Transfer to Debt Service from balance sheet to income statement			25,000.00	25,000.00	(25,000.00)	44,735.59
16	1158	FEMA RECEIVABLE	2,713.25			
16	2140	DEFERRED REVENUE-FEMA	2,592.26			
16	2141	DEFERRED REVENUE-STATE GRANTS	216.02			
16	5469	Grants - Other		216.02		
16	5470	FEMA Revenue		5,305.51		
Adjust year end FEMA receivable and deferred FEMA and State revenue			5,521.53	5,521.53	5,521.53	50,257.12
17	1493	Net Pension Asset	254,833.00			
17	1550	DEFERRED OUTFLOW OF RESOURCES		499.00		
17	2117	ACCRUED PENSION LIABILITY	446,563.00			
17	2121	DEFERRED INFLOWS-PENSION		554,369.00		
17	6064.3	TCDRS EXPENSE		146,528.00		
Record changes to Pension balances per GASB 68 report			701,396.00	701,396.00	146,528.00	196,785.12
			962,614.23	962,614.23	127,801.05	196,785.12

39125 Lumberton MUD 2022

Year End: June 30, 2022

Journal Entries: Adjusting - Debt Service Fund

Date: 7/1/2021 To 6/30/2022

8011

Prepared by JPO 8/3/2022	Prepared by EQCR Review	Manager Review
Partner Review	EQCR Review	Other Review

Number	Account No	Name	Debit	Credit	Amount Chg	Net Income (Loss)
Net Income (Loss) Before Adjustments						21,356.36
1	1250.01	Due from Operating Fund	15,000.00			
1	2701.01	DEFERRED REVENUE	11,074.86			
1	1400.01	Prepaid Expense		385.31		
1	1150.01	TAXES RECEIVABLE		2,869.09		
1	1155.01	ALLOWANCE FOR DOUBT		7,867.00		
1	3950.01	NET INCOME		2,886.09		
1	3000.01	RESERVED FOR DE		12,067.37		
To record PY AJEs						
			26,074.86	26,074.86	0.00	21,356.36
4	1150.01	TAXES RECEIVABLE	8,586.49			
4	1155.01	ALLOWANCE FOR DOUBT		139.00		
4	2701.01	DEFERRED REVENUE		7,947.49		
4	4320.01	TAX REVENUE - CURRENT		500.00		
Adjust Property Tax Receivable and Deferred Taxes						
			8,586.49	8,586.49	500.00	21,856.36
5	7369.01	COLLECTION ASSESSING EXPENSE	770.86			
5	1400.01	Prepaid Expense		770.86		
Adjust Prepaid Expense at Year End						
			770.86	770.86	(770.86)	21,085.50
8	1250.01	Due from Operating Fund	25,000.00			
8	5396.01	Transfer In/Out		25,000.00		
Reclass Transfer In from W&S from Balance Sheet to Income Statement						
			25,000.00	25,000.00	25,000.00	46,085.50
			60,432.21	60,432.21	24,729.14	46,085.50

LUMBERTON MUNICIPAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS

	<u>PAGE</u>
Annual Filing Affidavit	1
<u>Independent Auditor's Report</u>	2-4
<u>Management's Discussion and Analysis</u>	5-10
 Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position.....	11
Statement of Activities.....	12
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position for Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Net Position – Proprietary Fund.....	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund.....	18
Statement of Cash Flows – Proprietary Fund.....	19
Notes to the Financial Statements	20-38
 Required Supplementary Information	
Schedule of Changes in Employer's Net Pension Liability and Related Ratios.....	39
Schedule of Employer Contributions.....	40
Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual – Water and Sewer Fund.....	41
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Governmental Fund.....	42
 Texas Supplementary Information	
Schedule of Services and Rates.....	43-45
Schedule of Water and Sewer Fund Expenses.....	46
Analysis of Taxes Levied and Receivable.....	47
Water and Sewer Operating Fund, Waterworks and Sewer Revenue Bonds – Debt Service Requirements by Years.....	48-49
General Long-Term Debt Account Group – Debt Service Requirements by Years.....	50
Analysis of Changes in Waterworks and Sewer Revenue Bonds.....	51
Analysis of Changes in General Long-Term Debt.....	52
Comparative Statement of Revenues and Expenses – Proprietary Fund.....	53
Comparative Statement of Revenues and Expenditures – Debt Service Fund.....	54
Board Members, Key Personnel and Consultants.....	55-56
 Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	57-58

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS §

COUNTY OF Hardin §

I, Nicholas N. Carter, President of the Lumberton Municipal Utility District hereby swear, or affirm, that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 17th day of October, 2022 its annual report for the fiscal year or period ended June 30, 2022 and that copies of the annual audit have been filed in the District office, located at 625 FM 421, Lumberton, Texas 77657. The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements within Section 49.194 of the Texas Water Code.


Date: 10-17, 2022

By: 
(Signature of District Representative)

Nicholas N. Carter, President
(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this 17th day of October, 2022




(Signature of Notary)

My commission expires on December 2025 Notary Public in and for the State of Texas.

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA
Troy W. Domingue, CPA



Stanley (Chip) Majors, Jr., CPA.CITP, CGMA
Jane P. Burns, CPA, CDFA
Jeremy R. Triska, CPA

September 19, 2022

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lumberton Municipal Utility District
Lumberton, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Lumberton Municipal Utility District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Lumberton Municipal Utility 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, the business-type activities, and each major fund of the Lumberton Municipal Utility District, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Lumberton Municipal Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Lumberton Municipal Utility District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 and *Government 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 and *Government 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 Lumberton Municipal Utility District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lumberton Municipal Utility District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 5 through 10; the Schedules of Changes in Employer's Net Pension Liability and Related Ratios and Employer Contributions on pages 39 through 40; the Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual – Water and Sewer Fund on page 41; and the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Governmental Fund on page 42 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Texas Supplementary Information listed in the Table of Contents on page 43 through 57 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2022, on our consideration of the Lumberton Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lumberton Municipal Utility District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lumberton Municipal Utility District's internal control over financial reporting and compliance.

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lumberton Municipal Utility District, we offer readers of the Lumberton Municipal Utility District financial statements this narrative overview and analysis of the financial activities of the Lumberton Municipal Utility District for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the independent auditor's report and the District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The assets of the Lumberton Municipal Utility District exceeded its liabilities as of June 30, 2022, by \$23,356,693 (net position).
- The Lumberton Municipal Utility District's total net position increased by \$1,310,723. The District had expenses associated with all activities totaling \$6,803,282 and total revenues were \$8,114,005.
- As of June 30, 2022, the Lumberton Municipal Utility District's Water and Sewer Fund reported an ending net position of \$26,019,876.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Lumberton Municipal Utility District's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Lumberton Municipal Utility District's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the District include collections and disbursements of ad valorem taxes to pay off long-term debts. The business-type activities of the District include one enterprise activity: a water and sewer system.

The government-wide financial statements can be found on pages 11 and 12 of this report.

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 Lumberton Municipal Utility District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of Lumberton Municipal Utility District can be divided into two categories: governmental funds and proprietary funds.

LUMBERTON MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2022

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

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

The Lumberton Municipal Utility District maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Debt Service Fund, which is considered to be a major fund.

Proprietary funds. Lumberton Municipal Utility District maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations. The Water and Sewer Fund is considered a major enterprise fund for the District.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the Financial Statements can be found on pages 20 through 38.

Other information. In addition to the basic financial statements and accompanying notes, required supplementary information presents a schedule of changes in employer's net pension liability and related ratios, a schedule of employer contributions and budgetary comparison schedules for the Water and Sewer Fund and the Debt Service Fund to demonstrate compliance with the budget. This required supplementary information can be found on pages 39 through 42.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Lumberton Municipal Utility District, assets exceeded liabilities by \$23,356,693 at June 30, 2022.

LUMBERTON MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2022

STATEMENT OF NET POSITION

	Statement of Net Position June 30, 2022			
	Governmental Activities	Business-type Activities	Reclassifications	Total
Current and other assets	\$ 1,162,464	\$ 5,037,515	\$ -	\$ 6,199,979
Capital assets	-	29,147,095	-	29,147,095
Total Assets	1,162,464	34,184,610	-	35,347,074
Deferred Outflow of Resources	-	402,746	-	402,746
Current and other liabilities	1,043,369	2,079,948	-	3,123,317
Long-term liabilities	2,635,000	5,729,224	-	8,364,224
Total Liabilities	3,678,369	7,809,172	-	11,487,541
Deferred Inflow of Resources	147,278	758,308	-	905,586
Net Position:				
Invested in capital assets, net of related debt	-	19,996,236	(3,782,278)	16,213,958
Restricted	1,119,095	1,071,853	-	2,190,948
Unrestricted	(3,782,278)	4,951,787	3,782,278	4,951,787
Total Net Position	\$ (2,663,183)	\$ 26,019,876	\$ -	\$ 23,356,693
	Statement of Net Position June 30, 2021			
	Governmental Activities	Business-type Activities	Reclassifications	Total
Current and other assets	\$ 1,108,432	\$ 7,016,964	\$ -	\$ 8,125,396
Capital assets	-	27,373,336	-	27,373,336
Total Assets	1,108,432	34,390,300	-	35,498,732
Deferred Outflow of Resources	-	403,245	-	403,245
Current and other liabilities	1,047,909	2,469,053	-	3,516,962
Long-term liabilities	3,635,000	6,297,463	-	9,932,463
Total Liabilities	4,682,909	8,766,516	-	13,449,425
Deferred Inflow of Resources	202,643	203,939	-	406,582
Net Position:				
Invested in capital assets, net of related debt	-	20,419,199	(4,827,643)	15,591,556
Restricted	1,050,523	823,152	-	1,873,675
Unrestricted	(4,827,643)	4,580,739	4,827,643	4,580,739
Total Net Position	\$ (3,777,120)	\$ 25,823,090	\$ -	\$ 22,045,970

For the fiscal years ended June 30, 2022 and 2021, the District has a reclassification of \$3,782,278 and \$4,827,643, respectively, to move the debt associated with the construction of Waterworks and Sanitary Sewer Facilities from Unrestricted net position to Invested in capital assets, net of related debt. The capital assets are reported in the business-type activities and the debt is reported in the governmental activities.

Total net position of the District's activities was \$23,356,693. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements was \$4,951,787 at June 30, 2022. The deficit in unrestricted governmental net position is addressed in Note Number 11 in the notes to the Financial Statements.

LUMBERTON MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2022

STATEMENT OF CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues						
Fees for services	\$ -	\$ -	\$ 6,685,512	\$ 6,089,813	\$ 6,685,512	\$ 6,089,813
General revenues						
Property taxes	1,192,984	1,152,527	-	-	1,192,984	1,152,527
Investment income	999	913	8,860	11,884	9,859	12,797
Net grant activity	-	-	5,522	16,807	5,522	16,807
Other	5,464	5,847	214,664	736,326	220,128	742,173
Total Revenues	1,199,447	1,159,287	6,914,558	6,854,830	8,114,005	8,014,117
Expenses						
Administration	(44,965)	(47,469)	-	-	(44,965)	(47,469)
Interest on long-term debt	(65,545)	(103,842)	-	-	(65,545)	(103,842)
Water and sewer	-	-	(6,692,772)	(6,370,618)	(6,692,772)	(6,370,618)
Total Expenses	(110,510)	(151,311)	(6,692,772)	(6,370,618)	(6,803,282)	(6,521,929)
Increase (decrease) in net position before transfers	1,088,937	1,007,976	221,786	484,212	1,310,723	1,492,188
Transfers	25,000	15,000	(25,000)	(15,000)	-	-
Net position - beginning	(3,777,120)	(4,800,096)	25,823,090	25,353,878	22,045,970	20,553,782
Net position - ending	<u>\$ (2,663,183)</u>	<u>\$ (3,777,120)</u>	<u>\$ 26,019,876</u>	<u>\$ 25,823,090</u>	<u>\$ 23,356,693</u>	<u>\$ 22,045,970</u>

The District's total net position increased by \$1,310,723 during the current fiscal year. Governmental activities increased by \$1,113,937 and business-type activities increased by \$196,786.

Financial Analysis of the Government's Funds

As noted earlier, the Lumberton Municipal Utility District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Lumberton Municipal Utility District's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Lumberton Municipal Utility District's financing requirements.

As of June 30, 2022 the Lumberton Municipal Utility District's governmental fund reported an ending balance of \$1,101,347.

Proprietary funds. The District's proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

LUMBERTON MUNICIPAL UTILITY DISTRICT

Management’s Discussion and Analysis
For the Year Ended June 30, 2022

Unrestricted net position at the end of the year totaled \$4,951,787 for the Water and Sewer Fund. Net position in the Water and Sewer Fund increased by \$196,786 as the result of current operations.

General Fund Budgetary Highlights

There were no amendments to the original budget during the fiscal year ended June 30, 2022. There were no additional appropriations. Tax revenues were above budget by \$52,257 or 4.6%. Debt service expenditures were below budget by \$336.

Proprietary Fund Budget Highlights

There were no amendments to the original budget during the fiscal year ended June 30, 2022. Operating revenues exceeded budget by \$100,012 or 1.5%. Operating expenses were below budget by \$862,282 or 11.6%. Consumable supplies and materials were \$667,000 below budget, depreciation and amortization expense were below budget by \$204,865, recurring expenses and repairs exceeded budget by \$408,917.

Capital Assets

The Lumberton Municipal Utility District’s investment in capital assets for its business-type activities at June 30, 2022, was \$26,390,487 net of accumulated depreciation. This investment in capital assets includes land, buildings, machinery and equipment, and construction-in-progress and represents a net decrease of \$982,849 after considering accumulated depreciation of \$35,849,187.

CAPITAL ASSETS

	Business-Type Activities		Change
	2022	2021	
Land	\$ 438,597	\$ 438,597	\$ -
Buildings and improvements	5,650,690	5,650,690	-
Water System	12,277,505	12,086,952	190,553
Sewer System	41,009,234	40,882,960	126,274
Machinery and equipment	920,657	808,003	112,654
Automobiles and trucks	883,239	883,239	-
Furniture and fixtures	472,321	472,321	-
Engineering fees	354,039	354,039	-
Construction-in-progress	233,392	133,489	99,903
Total at historical cost	62,239,674	61,710,290	529,384
Total accumulated depreciation	(35,849,187)	(34,336,954)	(1,512,233)
Net capital assets	\$ 26,390,487	\$ 27,373,336	\$ (982,849)

LUMBERTON MUNICIPAL UTILITY DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2022

Long-Term Debt

At June 30, 2022, the Lumberton Municipal Utility District had \$9.9 million in bonds outstanding as shown below. Lumberton Municipal Utility District's bonds presently carry a Standard and Poor's Investor Services rating of "AA".

LONG-TERM DEBT

	Business-Type Activities			Governmental Activities		
	2022	2021	Change	2022	2021	Change
Bonds Payable	<u>\$6,297,463</u>	<u>\$6,850,047</u>	<u>\$ (522,584)</u>	<u>\$ 3,635,000</u>	<u>\$ 4,625,000</u>	<u>\$ (990,000)</u>

For the fiscal year ended June 30, 2022, interest expense in the Governmental activities was \$65,545, interest expense in the Business-type activities was \$128,714, and interest expense in the Governmental funds was \$135,450.

Economic Factors and Next Year's Budgets

Service fees and other operating revenues are budgeted at \$7,345,000 for the fiscal year ending June 30, 2023 as compared to actual operating revenue of \$6,685,512 for the fiscal year just ended.

Operating expenses, prior to capital outlay and debt principal are budgeted at \$8,102,300 for the fiscal year ending June 30, 2023 as compared to actual operating expenses of \$6,564,048 for the fiscal year just ended.

Lumberton Municipal Utility District has various ongoing capital projects.

Requests for Information

This financial report is designed to provide a general overview of the Lumberton Municipal Utility District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District Manager at P.O. Box 8065, Lumberton, Texas 77657.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

LUMBERTON MUNICIPAL UTILITY DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2022

	Governmental Activities	Business-type Activities	Reclassifications	Total
ASSETS				
Cash	\$ 1,082,838	\$ 3,552,298	\$ -	\$ 4,635,136
Investments	-	-	-	-
Accounts receivable, net of allowance for doubtful accounts:				
Taxes	73,617	-	-	73,617
Service accounts	-	794,816	-	794,816
Other	-	70,376	-	70,376
Inventory	-	620,025	-	620,025
Prepaid appraisal district fees	6,009	-	-	6,009
Net pension asset	-	254,833	-	254,833
Restricted assets:				
Cash	-	2,501,775	-	2,501,775
Capital assets:				
Land	-	438,597	-	438,597
Construction-in-progress	-	233,392	-	233,392
Other capital assets, net of accumulated depreciation	-	25,718,498	-	25,718,498
Total assets	1,162,464	34,184,610	-	35,347,074
DEFERRED OUTFLOW OF RESOURCES	-	402,746	-	402,746
LIABILITIES				
Accounts payable	-	222,826	-	222,826
Accrued liabilities	-	83,229	-	83,229
Interest payable	43,369	96,788	-	140,157
Compensated absences	-	70,445	-	70,445
Customer deposits	-	830,070	-	830,070
Deferred revenue	-	208,351	-	208,351
Debt payable - current	1,000,000	568,239	-	1,568,239
Debt payable - noncurrent	2,635,000	5,729,224	-	8,364,224
Total liabilities	3,678,369	7,809,172	-	11,487,541
DEFERRED INFLOW OF RESOURCES				
Deferred gain on refunded debt	147,278	-	-	147,278
Deferred inflows related to pension	-	758,308	-	758,308
Total deferred inflow of resources	147,278	758,308	-	905,586
NET POSITION				
Invested in capital assets, net of related debt	-	19,996,236	(3,782,278)	16,213,958
Restricted for:				
Debt service	1,119,095	1,071,853	-	2,190,948
Unrestricted	(3,782,278)	4,951,787	3,782,278	4,951,787
Total net position	\$(2,663,183)	\$26,019,876	\$ -	\$ 23,356,693

The reclassification is for debt associated with the construction of Waterworks and Sanitary Sewer facilities. The assets are accounted for in the Business-type Activities column and the debt is accounted for in the Government Activities column.

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

LUMBERTON MUNICIPAL UTILITY DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2022

		Program Revenues		
	Expenses	Charges for Services	Operating Grant Contributions	Capital Grant Contributions
Primary Government				
Government activities				
Administration and general	\$ 44,965	\$ -	\$ -	\$ -
Interest on long-term debt	65,545	-	-	-
Total government activities	110,510	-	-	-
Business-type activities				
Water and Sewer	6,692,772	6,685,512	-	5,522
Total business-type activities	6,692,772	6,685,512	-	5,522
Total primary government	\$ 6,803,282	\$ 6,685,512	\$ -	\$ 5,522
General revenues				
Property taxes				
Investment earnings				
Miscellaneous				
Developer contributions				
Rental income				
Transfers In (Out)				
Total general revenues				
Change in net position				
Net position, beginning of period				
Net position, end of period				

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

Net (Expense) Revenue and
Changes in Net Position

<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
\$ (44,965)	\$ -	\$ (44,965)
<u>(65,545)</u>	<u>-</u>	<u>(65,545)</u>
<u>(110,510)</u>	<u>-</u>	<u>(110,510)</u>
<u>-</u>	<u>(1,738)</u>	<u>(1,738)</u>
<u>-</u>	<u>(1,738)</u>	<u>(1,738)</u>
<u>(110,510)</u>	<u>(1,738)</u>	<u>(112,248)</u>
1,192,984	-	1,192,984
999	8,860	9,859
5,464	-	5,464
-	207,350	207,350
-	7,314	7,314
<u>25,000</u>	<u>(25,000)</u>	<u>-</u>
<u>1,224,447</u>	<u>198,524</u>	<u>1,422,971</u>
1,113,937	196,786	1,310,723
<u>(3,777,120)</u>	<u>25,823,090</u>	<u>22,045,970</u>
<u>\$ (2,663,183)</u>	<u>\$ 26,019,876</u>	<u>\$ 23,356,693</u>

FUND FINANCIAL STATEMENTS

LUMBERTON MUNICIPAL UTILITY DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2022

	<u>Debt Service Fund</u>
ASSETS	
Cash	\$ 1,082,838
Receivables, net of allowance for doubtful accounts:	
Taxes	73,617
Prepaid appraisal district fees	<u>6,009</u>
Total assets	<u>\$ 1,162,464</u>
DEFERRED INFLOW OF RESOURCES	
Deferred property tax revenue	\$ 61,117
FUND BALANCES	
Restricted	
Debt service	<u>1,101,347</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,162,464</u>

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

LUMBERTON MUNICIPAL UTILITY DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION FOR GOVERNMENTAL ACTIVITIES JUNE 30, 2022

Governmental fund balance as reported on the balance sheet for governmental funds. \$ 1,101,347

The governmental fund reports gains or losses on bond refunding as other sources and other uses of funds when they are first incurred. These gains or losses are capitalized and amortized in the Statement of Net Position for Governmental Activities.

Deferred gain on early retirement of debt	(651,037)
Accumulated amortization	503,759

Long-term liabilities of the governmental activities are not due and payable in the current period and therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.

General obligation bonds payable	(3,635,000)
Accrued interest expense	(43,369)

Deferred property tax revenue is recorded as a deferred inflow of resources in the governmental funds. Property taxes receivable, net of an allowance for uncollectable balances are recognized as income in the Statement of Net Position for Governmental Activities.

Deferred property tax revenue	<u>61,117</u>
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Total net position as reported on the Statement of Net Position for governmental activities.	<u>\$ (2,663,183)</u>
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The accompanying notes are an integral part of these financial statements.

LUMBERTON MUNICIPAL UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2022

	Debt Service Fund
REVENUES	
General property taxes	\$ 1,177,707
Penalties and interest	7,330
Interest	999
Miscellaneous	<u>5,464</u>
Total revenues	<u>1,191,500</u>
EXPENDITURES	
Debt service	
Principal	990,000
Interest and fiscal charges	135,450
Collection costs	16,128
Appraisal District	27,836
Miscellaneous	<u>1,000</u>
Total expenditures	<u>1,170,414</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,086
OTHER FINANCING SOURCES	
Transfer in	<u>25,000</u>
NET CHANGE IN FUND BALANCE	46,086
FUND BALANCES, beginning of period	<u>1,055,261</u>
FUND BALANCES, end of period	<u><u>\$ 1,101,347</u></u>

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

LUMBERTON MUNICIPAL UTILITY DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

Net change in fund balances for total governmental funds.	\$ 46,086
<p>The issuance of debt provides current resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.</p>	
Principal paid	990,000
<p>Interest associated with bonded indebtedness is recorded when paid in the governmental funds. Accrued interest expense is reported in the Statement of Activities.</p>	
Accrued interest on bonds payable - prior year	57,909
Accrued interest on bonds payable - current year	(43,369)
Amortization of gain on refunded bonds	55,365
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Collections and adjustments on prior year tax levies	46,435
Collections due from current year tax levy	<u>(38,489)</u>
Change in net position of governmental activities	<u><u>\$ 1,113,937</u></u>

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

LUMBERTON MUNICIPAL UTILITY DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2022

	Water and Sewer Fund
CURRENT ASSETS	
Cash	\$ 3,552,298
Accounts receivable, net of allowance for doubtful accounts:	
Service accounts	794,816
Other	70,376
Inventory	<u>620,025</u>
Total current assets	<u>5,037,515</u>
NONCURRENT ASSETS	
Net pension asset	254,833
Restricted	
Cash	2,501,775
Capital assets	
Land	438,597
Construction-in-progress	233,392
Other capital assets, net of accumulated depreciation	<u>25,718,498</u>
Total noncurrent assets	<u>29,147,095</u>
Total assets	<u>34,184,610</u>
DEFERRED OUTFLOW OF RESOURCES	<u>402,746</u>
CURRENT LIABILITIES	
Accounts payable	222,826
Accrued liabilities	83,229
Interest payable	96,788
Current portion, bonds payable	568,239
Compensated absences	70,445
Customer deposits	830,070
Deferred revenue	<u>208,351</u>
Total current liabilities	<u>2,079,948</u>
NONCURRENT LIABILITIES	
Bonds payable - noncurrent	<u>5,729,224</u>
Total noncurrent liabilities	<u>5,729,224</u>
Total liabilities	<u>7,809,172</u>
DEFERRED INFLOW OF RESOURCES	<u>758,308</u>
NET POSITION	
Invested in capital assets, net of related debt	19,996,236
Restricted for Debt Service	1,071,853
Unrestricted	<u>4,951,787</u>
TOTAL NET POSITION	<u>\$ 26,019,876</u>

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

LUMBERTON MUNICIPAL UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2022

	Water and Sewer Fund
OPERATING REVENUES	
Service fees	\$ 5,569,170
Tap connection fees	312,029
Miscellaneous	804,313
	<hr/>
Total operating revenues	6,685,512
	<hr/>
OPERATING EXPENSES	
Personnel	2,623,400
Professional services	90,471
Purchased and contract services	109,795
Consumable supplies and materials	302,000
Recurring expenses and repairs	1,926,157
Depreciation and amortization	1,512,235
	<hr/>
Total operating expenses	6,564,058
	<hr/>
OPERATING INCOME (LOSS)	121,454
	<hr/>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	8,860
Interest expense	(128,714)
Rental income	7,314
Developer contributions	207,350
State grant revenue	216
FEMA grant revenue	5,306
	<hr/>
Total non-operating revenues (expenses)	100,332
	<hr/>
NET INCOME (LOSS) BEFORE TRANSFERS	221,786
	<hr/>
Transfer out	(25,000)
	<hr/>
CHANGE IN NET POSITION	196,786
	<hr/>
NET POSITION, beginning of period	25,823,090
	<hr/>
NET POSITION, end of period	\$ 26,019,876
	<hr/> <hr/>

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

LUMBERTON MUNICIPAL UTILITY DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,564,738
Payments to suppliers and service providers	(3,322,245)
Payments to employees	<u>(2,118,160)</u>
Net cash provided by operating activities	<u>1,124,333</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer out	<u>(25,000)</u>
Net cash provided (used) by noncapital financing activities	<u>(25,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for capital assets	(222,133)
Construction-in-progress	(99,903)
Interest payments	(268,600)
Retirement of long-term debt	(420,000)
Customer security deposits	<u>50,900</u>
Net cash provided (used) by capital and related financing activities	<u>(959,736)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	8,860
Rental income	7,314
Maturity of investments	<u>669,443</u>
Net cash provided (used) by investing activities	<u>685,617</u>
INCREASE (DECREASE) IN CASH	
	825,214
CASH, beginning of period	<u>5,228,859</u>
CASH, end of period	<u>\$ 6,054,073</u>
Cash is presented in the Statement of Net Position as follows:	
Current Assets - Cash	\$ 3,552,298
Noncurrent Assets - Restricted Cash	<u>2,501,775</u>
	<u>\$ 6,054,073</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ 121,454
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization	1,512,235
(Increase) decrease in assets	
Receivables	(120,771)
Inventory	(243,070)
Increase (decrease) in liabilities	
Accounts payable	14,905
Accrued liabilities	(21,849)
Accrued pension liability	(701,396)
Compensated absences	7,957
(Increase) decrease in outflow/inflow of resources	<u>554,868</u>
Net cash provided by operating activities	<u>\$ 1,124,333</u>

During the fiscal year ended June 30, 2022, water and sewer system additions included \$207,350 in developer contributions.

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

NOTES TO THE FINANCIAL STATEMENTS

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements of the Lumberton Municipal Utility District (the "District") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting entity

The Lumberton Municipal Utility District (the District) was created by the 63rd Texas Legislature and operates pursuant to Chapter 49 of the Texas Water Code. The District, with approximately 38,000 acres, is located entirely within the southeast corner of Hardin County and, except for an additional 130 acres, with boundaries in common with Lumberton Independent School District, north of Beaumont, Texas.

The District has adopted Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity". In accordance with this statement, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District is governed by a Board of Directors consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. As required by generally accepted accounting principles, these financial statements present the activities of the District which is considered to be the primary government as well as the reporting entity. There are no other organizations which meet the criteria for inclusion herein as part of the financial reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Government activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District has the following major governmental fund:

Debt Service Fund – To account for the accumulation of financial resources for, and the payment of general long-term debt principal, interest, and other costs. The primary source of revenue is property taxes.

The District has the following major proprietary fund:

Enterprise Fund – To account for operations that are financed and operated in a manner similar to private business enterprises when the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed primarily through user charges. The predominant function of the District's operations are maintained within the water and sewer operating fund. The water and sewer operating fund is accounted for as an enterprise activity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Using Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

Budgetary Control

Budgets for the Water and Sewer Operating Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts shown on the budget to actual statements are as originally adopted or as amended by the District.

Organizational Costs

The District, in conformance with requirements of the Texas Commission on Environmental Quality (formerly TNRCC), capitalized and charged to organization costs, for the creation period, all costs incurred in the creation of the District allowed by statute. Organizational costs were amortized over the estimated life of the utility system which is 35 years.

Inventory

Inventory is valued at cost, determined by actual physical count. Consumable supplies are considered an expense when purchased.

Interfund Receivables/Payables and Transfers

From time to time transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the statements of net position and balance sheet. Transactions representing goods provided or services rendered are reported as transfers in/transfers out. Transactions reported for the year ended June 30, 2022 represent transfers to cover administrative expenditures related to the levy and collection of property taxes. See Note 7 for additional information.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital Assets (Continued)

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	5 - 35
Improvements other than buildings	10 - 35
Equipment	3 - 10

Compensated Absences

Vacation accrues at the end of the first year of continuous service. Employees shall be eligible for five working days of vacation after one year of continuous employment, which will increase to ten days on January 1 of the second year of employment. After five years and ten years of continuous employment, vacation days will increase to fifteen days and twenty days, respectively. No vacation days can be carried over into the next year.

Accrued vacation is recorded in the Enterprise Fund.

Nature of Purpose of Reservations and Designations of Fund Equity

The Proprietary Fund maintains the liability for revenue bonds that are paid from water and sewer service revenues. The current principal and interest maturity requirements are funded by an interest and sinking account set up in accordance with bond ordinances. A sinking fund reserve account has also been established for future debt requirements of the revenue bonds. The equity of those two accounts is, according to bond ordinance, a reservation of the Water and Sewer Fund Equity.

Amortization

Gains on advance refunding of bonds are accounted for as deferred inflow of resources in the Governmental Activities Statement of Net Position and are amortized over the original remaining life of the old debt.

Restricted Assets

Resources set aside for the repayment of revenue bonds, are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bond covenants. Restricted resources are used first to fund related appropriations and unrestricted resources are used after restricted resources are depleted.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Proprietary Fund Type considers all highly liquid investments (including restricted assets) with maturities of three months or less when purchased to be cash equivalents.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type activities Statement of Net Position.

In the governmental fund financial statements, debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Risk Management and Participation in Risk Pools

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are protected by participation in the Texas Municipal League Intergovernmental Risk Pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCERS's fiduciary net position have been determined on the same basis as they are reported by TCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Subsequent Events

In accordance with ASC 855, the Management of Lumberton Municipal Utility District has evaluated subsequent events through September 19, 2022, the date on which the financial statements were available for issue.

2) **CASH AND INVESTMENTS**

Texas statute and the District's investment policy authorize the District to invest in U.S. Treasury bills, notes, and bonds, which are backed by the full faith and credit of the United States government, U.S. governmental agency securities, and insured or collateralized time deposits issued by banks domiciled in the State of Texas.

At the year-end, the carrying amount of the District's deposits was \$7,136,911 and the bank balance was \$7,165,965. All deposits as of the financial statement date were insured by FDIC coverage or collateralized by a letter of credit and pledged securities held by the depository's agent in the District's name.

The District addresses its credit risk, custodial credit risk and concentration of credit risk by investing only in local financial institution instruments that are fully insured or collateralized. The District addresses its interest rate risk by investing primarily in short-term instruments.

There were no investments at June 30, 2022.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

2) **CASH AND INVESTMENTS (CONTINUED)**

Cash is reported in the financial statements as follows:

	Cash
Governmental Activities	\$ 1,082,838
Business-Type Activities - unrestricted	3,552,298
Business-Type Activities - restricted	
Interest and Sinking Fund	597,225
Bond Reserve Fund	1,071,853
Customer Meter Deposits	832,697
	\$ 7,136,911

3) **PROPERTY TAXES**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are normally levied on October 1 and payable by January 31. The District's taxes are billed and collected by the Hardin County Tax Assessor-Collector's office. In the fund financial statements, the District's property tax revenues are recognized as collected.

The District levies taxes in unlimited amounts for the payment of principal and interest of general long-term debt. The District, for the current year, had assessed valuations of \$1,468,328,599 and levied property taxes in the amount of \$1,179,942 from a tax rate of \$0.076/\$100 valuation.

Property taxes receivables as of June 30, 2022, were comprised of the following:

Year of Levy	Debt Service Fund
2021	\$ 45,503
2020	14,567
2019	12,073
2018	10,002
2017	10,975
Before 2017	67,363
	\$ 160,483

In the Statement of Net Position, Property Taxes Receivable are reported net of an allowance for uncollectibles of \$86,866.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

4) CAPITAL ASSETS

A summary of changes in the capital assets for the primary government for the year ended June 30, 2022 was as follows:

	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022
Business Type Activities				
Capital assets, not being depreciated				
Land	\$ 438,597	\$ -	\$ -	\$ 438,597
Construction-in-progress	133,489	99,903	-	233,392
Total capital assets, not being depreciated	<u>572,086</u>	<u>99,903</u>	<u>-</u>	<u>671,989</u>
Capital assets, being depreciated				
Buildings	5,650,690	-	-	5,650,690
Improvements other than buildings	53,323,951	316,827	-	53,640,778
Machinery and equipment	2,163,563	112,654	-	2,276,217
Total capital assets, being depreciated	<u>61,138,204</u>	<u>429,481</u>	<u>-</u>	<u>61,567,685</u>
Less accumulated depreciation				
Buildings	1,129,964	162,102	-	1,292,066
Improvements other than buildings	31,666,201	1,200,903	-	32,867,104
Machinery and equipment	1,540,789	149,228	-	1,690,017
Total accumulated depreciation	<u>34,336,954</u>	<u>1,512,233</u>	<u>-</u>	<u>35,849,187</u>
Total capital assets, being depreciation, net	<u>26,801,250</u>	<u>(1,082,752)</u>	<u>-</u>	<u>25,718,498</u>
Business-type activities capital assets, net	<u>\$ 27,373,336</u>	<u>\$ (982,849)</u>	<u>\$ -</u>	<u>\$ 26,390,487</u>

Construction-in-progress for the enterprise fund as of June 30, 2022, includes the following:

	Estimated Project Costs	Construction- In-Progress	Remaining Projected Costs
2021 Wastewater System Expansion and Improvement Project (see Note 12)	\$ 54,287,312	\$ 130,305	\$ 54,157,007
FEMA	1,095,115	103,087	992,028
Total for all projects	<u>\$ 55,382,427</u>	<u>\$ 233,392</u>	<u>\$ 55,149,035</u>

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

4) **CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs of the District as follows:

Business-type Activities	
Water and Sewer	<u>\$ 1,512,233</u>
Total Depreciation Expense - Business-type Activities	<u><u>\$ 1,512,233</u></u>

5) **INTANGIBLE ASSETS, DEFERRED GAINS AND AMORTIZATION**

Intangible assets and related amortization as of June 30, 2022, included the following:

	Historical Cost	Accumulated Amortization	Net
Business-Type Activities			
Organization costs, being amortized over 35 years	<u>\$ 379,157</u>	<u>\$ 379,157</u>	<u>\$ -</u>
Governmental Activities			
Deferred gain on defeased bonds (residual deferred charge)	<u>\$ 651,037</u>	<u>\$ 503,759</u>	<u>\$ 147,278</u>

Amortization expense for the year ended June 30, 2022 was \$0 in the Business-type Activities. Amortization of the deferred gain in the Governmental Activities was \$55,365 for the year ended June 30, 2022 and is recorded as a reduction of interest expense.

6) **LONG-TERM DEBT**

General Obligation and Revenue Bonds

The District issues general obligation and revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities and revenue bonds have been issued for business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation and revenue bonds currently outstanding are as follows:

Governmental activities - refunding	\$ 3,635,000
Business-type activities	<u>5,520,000</u>
	<u><u>\$ 9,155,000</u></u>

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

6) **LONG-TERM DEBT (CONTINUED)**

General Obligation and Revenue Bonds (Continued)

General Obligation Bonds payable at June 30, 2022 are comprised of the following individual issues:

\$7,190,000 Series 2011 General Obligation Refunding Bonds due in annual principal installments of \$500,000 to \$520,000 through August 15, 2022; with interest at 3.50% to 4.00%	\$ 510,000
\$5,770,000 Series 2015 Tax Refunding Bonds due in annual principal installments of \$455,000 to \$550,000 through August 15, 2027; with interest at 2.00% to 4.00%	3,125,000
	\$ 3,635,000

Total Revenue Bonds payable at June 30, 2022 are as follows:

\$2,680,000 Series 2018 Utility System Revenue Refunding Bonds due in annual principal installments of \$220,000 to \$330,000 through August 15, 2028; with interest at 5.0%	\$ 2,000,000
\$3,705,000 Series 2020 Utility System Revenue Refunding Bonds due in annual principal installments of \$185,000 to \$400,000 through August 15, 2033; with interest at 4.0% to 5.0%	3,520,000
	\$ 5,520,000

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 1,000,000	\$ 95,650	\$ 445,000	\$ 246,975
2024	505,000	68,075	470,000	224,100
2025	515,000	52,775	495,000	199,975
2026	525,000	37,175	530,000	174,350
2027	540,000	22,213	565,000	146,975
2028-2032	550,000	7,562	2,240,000	360,625
2033-2034	-	-	775,000	31,500
Total	\$ 3,635,000	\$ 283,450	\$ 5,520,000	\$ 1,384,500

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

6) **LONG-TERM DEBT (CONTINUED)**

General Obligation and Revenue Bonds (Continued)

For the fiscal year ended June 30, 2022, interest expense in the Governmental activities was \$65,545; interest expense in the Business-type activities was \$128,714; interest expense in the Governmental Funds was \$135,450.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General Obligation					
Bonds					
2011	\$ 1,030,000	\$ -	\$ 520,000	\$ 510,000	\$ 510,000
2015	3,595,000	-	470,000	3,125,000	490,000
	<u>\$ 4,625,000</u>	<u>\$ -</u>	<u>\$ 990,000</u>	<u>\$ 3,635,000</u>	<u>\$ 1,000,000</u>
Revenue Bonds					
2018	\$ 2,235,000	\$ -	\$ 235,000	\$ 2,000,000	\$ 245,000
2020	3,705,000	-	185,000	3,520,000	200,000
2018 Bond Premium	202,263	-	42,415	159,848	37,858
2020 Bond Premium	707,784	-	90,169	617,615	85,381
	<u>\$ 6,850,047</u>	<u>\$ -</u>	<u>\$ 552,584</u>	<u>\$ 6,297,463</u>	<u>\$ 568,239</u>
Total Bonded Debt	<u>\$ 11,475,047</u>	<u>\$ -</u>	<u>\$ 1,542,584</u>	<u>\$ 9,932,463</u>	<u>\$ 1,568,239</u>

Refunding and Defeased Debt

On November 1, 2011, Lumberton Municipal Utility District issued general obligation bonds totaling \$7,190,000 with interest ranging from 3.50% to 4.00% to refund three series of bonds with interest ranging from 3.15% to 6.00%. Two of the series were called on November 23, 2011 and the third series was advance refunded to be called on August 15, 2012. A portion of the proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds were called on August 15, 2012.

As a result of the advance refunding, the District reduced its total debt service requirements by \$485,173, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$428,319.

On August 20, 2015, the District refunded the General Obligation Bonds, Series 2005. Bonds in the amount of \$5,875,000 bearing interest at 2.1% to 3.85% were called on August 21, 2015 and were funded with the proceeds of Tax Refunding Bonds, Series 2015 in the amount of \$5,770,000 bearing interest at 2.0% to 4.0%. This refunding resulted in a net present value savings of \$348,649.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

6) **LONG-TERM DEBT (CONTINUED)**

Refunding and Defeased Debt (Continued)

On April 17, 2018, the District refunded \$2,885,000 of the Utility System Revenue Bonds, Series 2007. The Series 2007 refunded bonds bore interest at 4.97% to 5.57% and were called on May 24, 2019 being funded with the proceeds of the Utility System Revenue Refunding Bonds, Series 2018 in the amount of \$2,680,000 bearing interest at 5%. This refunding resulted in a net present value savings of \$344,857.

On June 2, 2020, the District refunded \$4,265,000 of the Utility System Revenue Bonds, Series 2012. The Series 2012 refunded bonds bore interest at 3.0% to 3.25% and were called on August 15, 2020 being funded with the proceeds of the Utility System Revenue Refunding Bonds, Series 2020 in the amount of \$3,705,000 bearing interest at 4% to 5%. This refunding resulted in a net present value savings of \$308,465. A deposit of \$4,330,494 was placed in escrow to defease the \$4,265,000 of Series 2012 bonds on August 15, 2020.

7) **OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosure, as part of the basic financial statements, of certain information concerning individual funds including:

- A) Segment information for certain enterprise funds. This requirement is effectively met in this report because the District maintains only one enterprise fund.
- B) In the Water and Sewer Fund, recurring expenses and repairs exceeded budget by \$408,917.
- C) In the Debt Service Fund, collection cost exceeded budget by \$1,128 but was offset by savings on Appraisal District fees which were budgeted to include collection costs. Debt service fees exceeded budget by \$700.
- D) The annual property tax levy is restricted to the balance necessary to meet the debt service requirement of principal and interest on certain impacted general obligation bonds. Therefore, General Debt Service Fund administrative costs including appraisal and collection fees must be funded from another source. The Water and Sewer Proprietary Fund provided this source of funding through an interfund transfer in the amount of \$25,000 for the fiscal year ended June 30, 2022.

8) **PENSION COSTS**

Plan Description

Lumberton Municipal Utility District provides retirement, disability and death benefits for all of its full-time and part-time non-temporary employees through participation in the statewide Texas County and District Retirement System (TCDRS), a nontraditional defined benefit pension plan. The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 830 nontraditional defined benefit pension plans. TCERS in the aggregate issues an annual comprehensive financial report (ACFR) on a calendar year basis. The ACFR is available upon written request from the TCERS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

8) **PENSION COSTS (CONTINUED)**

Plan Description (continued)

The Plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of those monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

At June 30, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	38
Active employees	<u>28</u>
	<u>74</u>

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer contributed using the actuarially determined rate of 7.82% for the months of the accounting year in 2021 and 9.66% for the months of the accounting year in 2022. The contribution rate payable by the employee members for calendar years 2021 and 2022 is the rate of 6.00%, as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ended June 30, 2022, the annual pension cost for the TCDRS plan for its employees was \$174,439 and the actual contribution was \$175,571. The required contribution was determined as part of the December 31, 2021 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2021 included (a) 7.5 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.7 percent. Both (a) and (b) included an inflation component of 2.5 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized on a level percentage of covered payroll basis over a closed period with a layered approach.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

8) **PENSION COSTS (CONTINUED)**

Net Pension Liability / (Asset)

	<u>Year Ended December 31, 2021</u>	<u>Year Ended December 31, 2020</u>
Total Pension Liability		
Service cost	\$ 211,335	\$ 183,388
Interest on total pension liability	446,991	405,258
Effect of plan changes	-	-
Effect of assumption changes or inputs	42,623	408,818
Effect of economic/demographic (gains) or losses	28,492	(4,651)
Benefit payments/refunds of contributions	<u>(162,801)</u>	<u>(122,775)</u>
Net change in total pension liability	566,640	870,038
Total pension liability, beginning	<u>5,750,031</u>	<u>4,879,993</u>
Total pension liability, ending (a)	<u>6,316,671</u>	<u>5,750,031</u>
Fiduciary Net Position		
Employer contributions	144,197	131,274
Member contributions	110,637	101,888
Investment income net of investment expenses	1,175,490	486,466
Benefit payments/refunds of contributions	(162,801)	(122,775)
Administrative expenses	(3,555)	(3,881)
Other	<u>4,068</u>	<u>3,733</u>
Net change in fiduciary net position	1,268,036	596,705
Fiduciary net position, beginning	<u>5,303,468</u>	<u>4,706,763</u>
Fiduciary net position, ending (b)	<u>6,571,504</u>	<u>5,303,468</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ (254,833)</u>	<u>\$ 446,563</u>
Fiduciary net position as a % of total pension liability	104.03%	92.23%
Pensionable covered payroll ⁽¹⁾	\$ 1,843,958	\$ 1,698,128
Net pension liability as a % of covered payroll	-13.82%	26.30%

⁽¹⁾ Payroll is calculated based on contributions as reported to TCDRS.

The total pension liability/(asset) was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

8) **PENSION COSTS (CONTINUED)**

Discount Rate

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Discount rate ⁽²⁾	7.60%	7.60%	8.10%
Long-term expected rate of return, net of investment expenses ⁽²⁾	7.60%	7.60%	8.10%
Municipal bond rate ⁽³⁾	Does not apply	Does not apply	Does not apply

⁽²⁾ This rate reflects the long-term rate of return funding valuation assumption of 7.50%, plus 0.10% adjustment to be gross of administrative expenses required by GASB 68.

⁽³⁾ The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

Other Key Actuarial Assumptions

The demographic assumptions were developed from the actuarial experience investigation of TCDRS over the years 2017-2020. They were recommended by the actuary and adopted by the TCDRS Board of Trustees in December of 2021. All economic assumptions were recommended by the actuary and adopted by the TCDRS Board of Trustees in March of 2021. These assumptions, except where required to be different by GASB 68, are used to determine the total pension liability as of December 31, 2021. The assumptions are reviewed annually for continued compliance with the relevant actuarial standards of practice.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

8) **PENSION COSTS (CONTINUED)**

Actuarial Methods and Assumptions Used for GASB Calculations

Valuation Timing Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost method	Entry Age (level percent of pay)
Amortization Method	Straight-Line amortization over Expected Working Life
Remaining Amortization Period	10.4 years (based on contribution rate calculated in 12/31/2019 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career including inflation.
Investment Rate of Return	7.50%, net of administrative and investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the schedule. 2019: No changes in plan provisions were reflected in the schedule. 2020: No changes in plan provisions were reflected in the schedule. 2021: No changes in plan provisions were reflected in the schedule.

* Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to Schedule.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

8) **PENSION COSTS (CONTINUED)**

Long-term Expected Rate of Return

The Long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2022 information for a 10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed in detail at a minimum of every four years, and is set based on a long-term time horizon. The TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. The actuary relies on the expertise of Cliffwater in this assessment.

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	3.80%
Global Equities	MSCI World (net) Index	2.50%	4.10%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	5.00%	3.89%
Int'l Equities - Emerging Markets	MSCI Emerging Markets (net) Index	6.00%	4.30%
Investment - Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.85%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	1.77%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.25%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	4.50%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	3.10%
Master Limited Partnership (MLPs)	Alerian MLP Index	2.00%	3.85%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	5.10%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	6.80%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	1.55%
Cash Equivalentents	90-Day U.S. Treasury	2.00%	-1.05%

⁽¹⁾ Target asset allocation adopted at the March 2022 TCDRS Board Meeting.

⁽²⁾ Geometric real rates of return equal the expected return for the asset class minus the assumed inflation rate of 2.6%, per Cliffwater's 2022 capital market assumptions.

⁽³⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

⁽⁵⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

8) **PENSION COSTS (CONTINUED)**

Changes in Net Pension Liability / (Asset)

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances as of December 31, 2020	\$ 5,750,031	\$ 5,303,468	\$ 446,563
Changes for the year:			
Service Cost	211,335	-	211,335
Interest on total pension liability ⁽¹⁾	446,991	-	446,991
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	28,492	-	28,492
Effect of assumptions changes or inputs	42,623	-	42,623
Refund of contributions	(59,348)	(59,348)	-
Benefit payments	(103,453)	(103,453)	-
Administrative expenses	-	(3,555)	3,555
Member contributions	-	110,637	(110,637)
Net Investment income	-	1,175,490	(1,175,490)
Employer contributions	-	144,197	(144,197)
Other ⁽³⁾	-	4,068	(4,068)
	\$ 6,316,671	\$ 6,571,504	\$ (254,833)
Balances as of December 31, 2021	\$ 6,316,671	\$ 6,571,504	\$ (254,833)

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ No plan changes valued.

⁽³⁾ Relates to allocation of system-wide items.

Sensitivity Analysis

The following presents the net pension liability of the employer, calculated using the discount rate of 7.60%, as well as what the Lumberton Municipal Utility District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate.

	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Total pension liability	\$ 7,353,746	\$ 6,316,671	\$ 5,456,238
Fiduciary net position	6,571,504	6,571,504	6,571,504
Net pension liability / (asset)	\$ 782,242	\$ (254,833)	\$ (1,115,266)

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

8) **PENSION COSTS (CONTINUED)**

	January 1, 2021 to December 31, 2021
Pension Expense / (Income)	\$ 211,335
Service cost	\$ 211,335
Interest on total pension liability ⁽¹⁾	446,991
Effect on plan changes	-
Administrative expenses	3,555
Member contributions	(110,637)
Expected investment return net of investment expenses	(406,516)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(5,073)
Recognition of assumption changes or inputs	94,822
Recognition of investment gains or losses	(201,366)
Other ⁽²⁾	(4,068)
Pension expense / (income)	\$ 29,043

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ Relates to allocation of system-wide items.

As of December 31, 2021, the deferred inflow and outflows of resources are as follows:

Deferred inflows / outflows of resources

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 32,447	\$ 21,369
Changes of assumptions	-	282,058
Net difference between projected and actual earnings	725,861	-
Contributions made subsequent to measurement date	n/a	99,319
	\$ 758,308	\$ 402,746

Amounts currently reported as deferred outflows of resources and deferred inflow of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:	
2022	\$ (72,304)
2023	(148,391)
2024	(80,392)
2025	(153,794)
2026	-
Thereafter ⁽³⁾	-

⁽³⁾ Total remaining balances to be recognized in future years, if any. Note that additional future deferred inflows and outflows of resources may impact these numbers.

LUMBERTON MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

8) **PENSION COSTS (CONTINUED)**

Payable to the Pension Plan

At June 30, 2022, the District reported a payable of \$3,141 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

9) **COMMITMENTS AND CONTINGENCIES**

The District is a party to various claims and legal actions arising in the ordinary course of operations. In the opinion of management, all such matters are adequately covered by insurance or if not so covered, are without merit, or involve such amounts that unfavorable disposition would not have a material effect on the operation of the District.

10) **TAX ABATEMENTS**

The District has not awarded any Tax Abatement Agreements under Texas Property Redevelopment and Tax Abatement Tax Code Chapter 312. There is one Tax Abatement agreement in effect within the District's boundaries. This agreement is between Hardin County and Altus Lumberton Realty and does not impact the District's tax revenue.

11) **NET POSITION (DEFICIT)**

The District utilizes the proceeds of general obligation and revenue bonds to purchase and construct its Water and Sewer system improvements. Those assets are reported as Business-type Activities but the liabilities relating to the bonds are reported both as Governmental Activities and Business-type Activities depending on whether said bonds are general obligation or revenue bonds. Since the Governmental Activities report the liability of the general obligation bonds but do not report any assets associated with those bonds, net position reflects a deficit of \$2,663,183.

12) **WASTEWATER TREATMENT PLANT EXPANSION INCLUDING SUBSEQUENT FINANCING**

During the year ended June 30, 2021, the District began a feasibility and engineering study related to a possible wastewater treatment plant expansion and sanitary collection system improvements program. The resultant engineering report was a required step prior to the calling of a bond election. On November 2, 2021, the taxpayers approved issuance of bonds not to exceed \$74,275,000 for the purpose of paying for and financing the construction and equipping of public works, including the wastewater collection, transportation and treatment facilities of the District and for renovating, improving, expanding, upgrading, making additions to, rehabilitating and equipping existing public works in the District. The District issued \$30,275,000 of bonds dated August 1, 2022. The bonds mature from 2024 through 2053 with an interest rate of 3% to 6%. An additional \$44,000,000 of bonds are anticipated to be issued in September 2022 to the Texas Water Development Board from the Clean Water State Revolving Fund. The Construction-In-Progress referenced in Note 4 represents engineering fees incurred through June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

LUMBERTON MUNICIPAL UTILITY DISTRICT

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED JUNE 30, 2022

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Total Pension Liability				
Service cost	\$ 211,335	\$ 183,388	\$ 195,567	\$ 197,978
Interest on total pension liability	446,991	405,258	369,799	334,061
Effect of plan changes	-	-	-	-
Effect of assumption changes or inputs	42,623	408,818	-	-
Effect of economic/demographic (gains) or losses	28,492	(4,651)	(30,238)	(37,235)
Benefit payments/refunds of contributions	<u>(162,801)</u>	<u>(122,775)</u>	<u>(49,026)</u>	<u>(53,279)</u>
Net change in total pension liability	566,640	870,038	486,102	441,525
Total pension liability, beginning	<u>5,750,031</u>	<u>4,879,993</u>	<u>4,393,891</u>	<u>3,952,366</u>
Total pension liability, ending (a)	<u>6,316,671</u>	<u>5,750,031</u>	<u>4,879,993</u>	<u>4,393,891</u>
Fiduciary Net Position				
Employer contributions	144,197	131,274	127,692	133,763
Member contributions	110,637	101,888	103,395	104,235
Investment income net of investment expenses	1,175,490	486,466	637,612	(68,066)
Benefit payments/refunds of contributions	(162,801)	(122,775)	(49,026)	(53,279)
Administrative expenses	(3,555)	(3,881)	(3,587)	(3,119)
Other	<u>4,068</u>	<u>3,733</u>	<u>6,889</u>	<u>5,880</u>
Net change in fiduciary net position	1,268,036	596,705	822,975	119,414
Fiduciary net position, beginning	<u>5,303,468</u>	<u>4,706,763</u>	<u>3,883,788</u>	<u>3,764,374</u>
Fiduciary net position, ending (b)	<u>6,571,504</u>	<u>5,303,468</u>	<u>4,706,763</u>	<u>3,883,788</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ (254,833)</u>	<u>\$ 446,563</u>	<u>\$ 173,230</u>	<u>\$ 510,103</u>
Fiduciary net position as a % of total pension liability	104.03%	92.23%	96.45%	88.39%
Pensionable covered payroll ⁽¹⁾	\$ 1,843,958	\$ 1,698,128	\$ 1,723,254	\$ 1,737,255
Net pension liability as a % of covered payroll	-13.82%	26.30%	10.05%	29.36%

See Independent Auditor's Report on Supplementary Information.

<u>Year Ended December 31, 2017</u>	<u>Year Ended December 31, 2016</u>	<u>Year Ended December 31, 2015</u>	<u>Year Ended December 31, 2014</u>
\$ 178,925	\$ 176,703	\$ 165,510	\$ 149,047
298,707	259,476	231,404	204,111
-	-	(56,788)	-
16,811	-	26,619	-
(7,442)	6,258	(21,248)	7,732
<u>(85,244)</u>	<u>(16,890)</u>	<u>(21,432)</u>	<u>(13,164)</u>
401,757	425,547	324,065	347,726
<u>3,550,610</u>	<u>3,125,063</u>	<u>2,800,998</u>	<u>2,453,272</u>
<u>3,952,367</u>	<u>3,550,610</u>	<u>3,125,063</u>	<u>2,800,998</u>
126,288	118,763	121,840	115,664
102,775	100,931	98,126	87,958
463,256	203,556	(55,681)	151,881
(85,244)	(16,890)	(21,432)	(13,164)
(2,503)	(2,213)	(1,927)	(1,875)
<u>1,904</u>	<u>17,728</u>	<u>35</u>	<u>(1,302)</u>
606,476	421,875	140,961	339,162
<u>3,157,898</u>	<u>2,736,023</u>	<u>2,595,062</u>	<u>2,255,900</u>
<u>3,764,374</u>	<u>3,157,898</u>	<u>2,736,023</u>	<u>2,595,062</u>
<u>\$ 187,993</u>	<u>\$ 392,712</u>	<u>\$ 389,040</u>	<u>\$ 205,936</u>
95.24%	88.94%	87.55%	92.65%
\$1,712,913	\$1,682,183	\$1,635,434	\$1,465,975
10.98%	23.35%	23.79%	14.05%

LUMBERTON MUNICIPAL UTILITY DISTRICT

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2022

<u>Year Ending December 31,</u>	<u>Actuarially Determined Contribution⁽¹⁾</u>	<u>Actual Employer Contribution⁽¹⁾</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll⁽²⁾</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2012	\$ 94,730	\$ 94,730	\$ -	\$ 1,439,654	6.6%
2013	96,562	96,562	-	1,434,837	6.7%
2014	115,664	115,664	-	1,465,975	7.9%
2015	121,840	121,840	-	1,635,434	7.5%
2016	118,763	118,763	-	1,682,183	7.1%
2017	126,242	126,288	(46)	1,712,913	7.4%
2018	133,763	133,763	-	1,737,255	7.7%
2019	127,692	127,692	-	1,723,254	7.4%
2020	131,265	131,274	(9)	1,698,128	7.7%
2021	144,197	144,197	-	1,843,958	7.8%

⁽¹⁾ TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

⁽²⁾ Payroll is calculated based on contributions as reported to TCDRS.

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BUDGET AND ACTUAL – WATER AND SEWER FUND FOR THE YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Final Budget Variance Favorable (Unfavorable)
REVENUES				
Service fees	\$ 5,695,000	\$ 5,695,000	\$ 5,569,170	\$ (125,830)
Tap connection fees	205,000	205,000	312,029	107,029
Miscellaneous	685,500	685,500	804,313	118,813
Total operating revenues	<u>6,585,500</u>	<u>6,585,500</u>	<u>6,685,512</u>	<u>100,012</u>
EXPENSES				
Personnel	2,818,000	2,818,000	2,623,400	194,600
Professional services	162,000	162,000	90,471	71,529
Purchased and contract services	243,000	243,000	109,795	133,205
Consumable supplies and materials	969,000	969,000	302,000	667,000
Recurring expenses and repairs	1,517,240	1,517,240	1,926,157	(408,917)
Depreciation and amortization	1,717,100	1,717,100	1,512,235	204,865
Total operating expenses	<u>7,426,340</u>	<u>7,426,340</u>	<u>6,564,058</u>	<u>862,282</u>
OPERATING INCOME (LOSS) - BUDGET BASIS	<u>(840,840)</u>	<u>(840,840)</u>	<u>121,454</u>	<u>962,294</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest on investments	6,500	6,500	8,860	2,360
Interest expense	(268,600)	(268,600)	(128,714)	139,886
Nonbudgeted revenues (expenses)	-	-	220,186	220,186
Total non-operating revenues (expenses)	<u>(262,100)</u>	<u>(262,100)</u>	<u>100,332</u>	<u>362,432</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>(1,102,940)</u>	<u>(1,102,940)</u>	<u>221,786</u>	<u>1,324,726</u>
Transfer out	-	-	(25,000)	(25,000)
CHANGE IN NET POSITION - GAAP BASIS	<u><u>\$ (1,102,940)</u></u>	<u><u>\$ (1,102,940)</u></u>	<u><u>\$ 196,786</u></u>	<u><u>\$ 1,299,726</u></u>
NON GAAP BUDGET ITEMS				
Third party fee collections	\$ 562,000	\$ 562,000	\$ 566,455	\$ 4,455
Third party fee disbursements	(562,000)	(562,000)	(566,455)	(4,455)
Debt service transfer	(200,000)	(200,000)	(200,000)	-
Debt service I&S reserves	(420,000)	(420,000)	(420,000)	-
Capital funds transfers	527,900	527,900	140,541	(387,359)
Capital expenditures	(492,900)	(492,900)	(237,019)	255,881
Total non-gaap budget items	<u><u>\$ (585,000)</u></u>	<u><u>\$ (585,000)</u></u>	<u><u>\$ (716,478)</u></u>	<u><u>\$ (131,478)</u></u>

In accordance with the terms of the District's 2018 and 2020 Bond Orders, operating income before depreciation and amortization (\$121,454 + \$1,512,235 = \$1,633,689) exceeded 125% of debt service requirement (\$575,375 x 1.25= \$719,219) by \$914,470.

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	Final Budget Variance Favorable (Unfavorable)
REVENUES				
General property taxes	\$ 1,125,450	\$ 1,125,450	\$ 1,177,707	\$ 52,257
Penalties and interest	9,000	9,000	7,330	(1,670)
Interest	450	450	999	549
Miscellaneous	8,000	8,000	5,464	(2,536)
Total revenues	1,142,900	1,142,900	1,191,500	48,600
EXPENDITURES				
Debt service				
Principal	990,000	990,000	990,000	-
Interest and fiscal charges	135,450	135,450	135,450	-
Collection costs	15,000	15,000	16,128	(1,128)
Appraisal District fees	30,000	30,000	27,836	2,164
Miscellaneous	300	300	1,000	(700)
Total expenditures	1,170,750	1,170,750	1,170,414	336
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(27,850)	(27,850)	21,086	48,936
OTHER FINANCING SOURCES:				
Transfer in	28,000	28,000	25,000	(3,000)
NET CHANGE IN FUND BALANCE	150	150	46,086	45,936
FUND BALANCE, beginning of period	1,055,261	1,055,261	1,055,261	-
FUND BALANCE, end of period	\$ 1,055,411	\$ 1,055,411	\$ 1,101,347	\$ 45,936

See Independent Auditor's Report on Supplementary Information.

TEXAS SUPPLEMENTARY INFORMATION

LUMBERTON MUNICIPAL UTILITY DISTRICT

SCHEDULE OF SERVICES AND RATES

JUNE 30, 2022

1. Services provided by the District:

- | | | |
|---|---|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input type="checkbox"/> Participants in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other | | |

2. Retail rates based on 5/8" meter: Retail rates not applicable

The most prevalent type of meter (if not a 5/8"): 5/8" is most prevalent

Based on Rate Order dated April 1, 2022:

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels	
Water	\$ 14.00	1,500	Y		0	to 1,500
				2.50	1,501	to 7,000
				2.75	7,001	to 20,000
				2.90	20,001	to up
Wastewater	16.00	1,500		2.75	1,501	to 7,000
				3.05	7,001	to 20,000
				3.25	20,001	to up
Surcharge	<u>N/A</u>					

Does the District employ winter averaging for wastewater usage? Yes No

Total water and wastewater charges per 10,000 gallons usage (including surcharges) \$ 75.79

3. Retail service providers: Number of retail and/or wastewater⁽¹⁾ connections within the District as of the fiscal year end. Provide actual number and single family equivalents (ESFC) as noted:

	Active Connections	Active ESFC	Inactive Connections (ESFC) ⁽²⁾	Total
Single family	8,398	8,398	Unknown	8,398
Multifamily	158	1,152	Unknown	1,152
Commercial	471	621	-	621
Other - recreational centers, government and VFD	-	-	-	-
	<u>9,027</u>	<u>10,171</u>	<u>-</u>	<u>10,171</u>

⁽¹⁾ Number of connections relates to water service if water service is provided. Otherwise, number of wastewater connections is provided.

⁽²⁾ "Inactive" means that water and sewer connections were made but service is not being provided.

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

SCHEDULE OF SERVICES AND RATES

JUNE 30, 2022
(CONTINUED)

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

Gallons pumped into system:	791,062,800
Gallons billed to customers:	665,085,304

5. Standby fees: Does the District assess standby fees? Yes _____ No X

For the fiscal year ended June 30, 2022:

Debt service:	Total levy	N/A
	Total collected	
	Percentage collected	
Operation and maintenance:	Total levy	N/A
	Total collected	
	Percentage collected	

Have standby fees been levied in accordance with Water Code Section 49.231 thereby constituting a lien on a property? Yes _____ No X

6. Anticipated sources of funds to be used by debt service payments in the District's following fiscal year:

	Amount
Debt service tax receipts	\$ -
Surplus construction funds	-
Water and/or wastewater revenue	691,975
Standby fees	-
Debt service fund balance to be used	-
Interest revenues	-
Other funds in excess of required payments	-
Total Anticipated Funds to be used	\$ 691,975

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

SCHEDULE OF SERVICES AND RATES

**JUNE 30, 2022
(CONTINUED)**

7. Location of District: County(ies) in which District is located. Hardin County, Texas
- Is the general membership of the board appointed by an office outside the District? Yes ___ No X
- Is the District located within a city? Entirely ___ Partly X Not at all ___
- City(ies) in which District is located. Lumberton
- Is the District located within a city's extra territorial jurisdiction (ETJ)? Entirely ___ Partly X Not at all ___
- ETJ's in which District is located? City of Beaumont
- Outside the District? Yes ___ No X
- If yes, by whom? N/A
- Name of Contact Carla Belt Phone Number (409) 755-1559
Title Accountant

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

SCHEDULE OF WATER AND SEWER FUND EXPENSES FOR THE YEAR ENDED JUNE 30, 2022

OPERATING EXPENSES	
Personnel (including benefits)	<u>\$ 2,623,400</u>
Professional fees	
Auditing	21,250
Legal	47,743
Management and consulting	3,778
Engineering	<u>17,700</u>
Total professional fees	<u>90,471</u>
Purchased and contracted services	
Contracted material and repairs	924
Other contracted services	<u>108,871</u>
Total contracted services	<u>109,795</u>
Consumable supplies and materials	
Fuel, chemicals and other	277,847
Repair and maintenance	<u>24,153</u>
Total consumable supplies and materials	<u>302,000</u>
Recurring expenses and repairs	
Utilities	386,564
Insurance	75,289
Other administrative expenses	<u>1,464,304</u>
Total administrative expenses	<u>1,926,157</u>
Depreciation and amortization	<u>1,512,235</u>
TOTAL OPERATING EXPENSES	<u>6,564,058</u>
NON-OPERATING EXPENSES	
Interest	<u>128,714</u>
Total non-operating expenses	<u>128,714</u>
TOTAL EXPENSES	6,692,772
Transfer out	<u>25,000</u>
TOTAL EXPENSES AND TRANSFER OUT	<u><u>\$ 6,717,772</u></u>

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

ANALYSIS OF TAXES LEVIED AND RECEIVABLE

JUNE 30, 2022

	Debt Service Fund			
Taxes receivable, beginning of year	\$		151,897	
2021 original tax levy			1,179,942	
Total to be accounted for			1,331,839	
Taxes collections				
Current year			1,132,333	
Prior year			30,098	
Total collections			1,162,431	
Adjustments			8,925	
			1,171,356	
Taxes receivable, end of year	\$		160,483	
Taxes receivable by year				
2021	\$		45,503	
2020			14,567	
2019			12,073	
2018			10,002	
2017			10,975	
Before 2017			67,363	
Taxes receivable, end of year	\$		160,483	
		2021	2020	2019
Property valuations				2018
Land and improvements	\$	1,468,328,599	\$ 1,315,739,898	\$ 1,251,730,807
			\$ 1,168,489,900	
Tax rates per \$100 valuation				
Debt Service Fund	\$	0.076000	\$ 0.086749	\$ 0.091200
			\$ 0.098137	
Original levy	\$	1,179,942	\$ 1,144,951	\$ 1,154,094
			\$ 1,145,118	
Percent of taxes collected to taxes levied		96%	96%	96%

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

WATER AND SEWER OPERATING FUND WATERWORKS AND SEWER REVENUE BONDS DEBT SERVICE REQUIREMENTS BY YEARS JUNE 30, 2022

Utility System Revenue Refunding Bonds Series 2018 Issued \$2,680,000				
Due During Fiscal Years Ending June 30,	August 15,		February 15,	Total Principal and Interest
	Interest	Principal	Interest	
2023	\$ 50,000	\$ 245,000	\$ 43,875	\$ 338,875
2024	43,875	255,000	37,500	336,375
2025	37,500	270,000	30,750	338,250
2026	30,750	285,000	23,625	339,375
2027	23,625	300,000	16,125	339,750
2028	16,125	315,000	8,250	339,375
2029	8,250	330,000	-	338,250
	\$ 210,125	\$ 2,000,000	\$ 160,125	\$ 2,370,250

Utility System Revenue Refunding Bonds Series 2020 Issued \$3,705,000				
Due During Fiscal Years Ending June 30,	August 15,		February 15,	Total Principal and Interest
	Interest	Principal	Interest	
2023	\$ 79,050	\$ 200,000	\$ 74,050	\$ 353,100
2024	74,050	215,000	68,675	357,725
2025	68,675	225,000	63,050	356,725
2026	63,050	245,000	56,925	364,975
2027	56,925	265,000	50,300	372,225
2028	50,300	280,000	43,300	373,600
2029	43,300	300,000	35,800	379,100
2030	35,800	320,000	29,400	385,200
2031	29,400	340,000	22,600	392,000
2032	22,600	355,000	15,500	393,100
2033	15,500	375,000	8,000	398,500
2034	8,000	400,000	-	408,000
	\$ 546,650	\$ 3,520,000	\$ 467,600	\$ 4,534,250

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

WATER AND SEWER OPERATING FUND WATERWORKS AND SEWER REVENUE BONDS DEBT SERVICE REQUIREMENTS BY YEARS JUNE 30, 2022

Due During Fiscal Years Ending June 30,	Annual Requirements for All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2023	\$ 445,000	\$ 246,975	\$ 691,975
2024	470,000	224,100	694,100
2025	495,000	199,975	694,975
2026	530,000	174,350	704,350
2027	565,000	146,975	711,975
2028	595,000	117,975	712,975
2029	630,000	87,350	717,350
2030	320,000	65,200	385,200
2031	340,000	52,000	392,000
2032	355,000	38,100	393,100
2033	375,000	23,500	398,500
2034	400,000	8,000	408,000
	\$ 5,520,000	\$ 1,384,500	\$ 6,904,500

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

GENERAL LONG-TERM DEBT ACCOUNT GROUP DEBT SERVICE REQUIREMENTS BY YEARS JUNE 30, 2022

General Obligation Refunding Bonds Series 2011 Issued \$7,190,000				
Due During Fiscal Years Ending June 30,	August 15,		February 15,	Total
	Interest	Principal	Interest	Principal and Interest
2023	\$ 10,200	\$ 510,000	\$ -	\$ 520,200
	\$ 10,200	\$ 510,000	\$ -	\$ 520,200

Tax Refunding Bonds Series 2015 Issued \$5,770,000				
Due During Fiscal Years Ending June 30,	August 15,		February 15,	Total
	Interest	Principal	Interest	Principal and Interest
2023	\$ 47,625	\$ 490,000	\$ 37,825	\$ 575,450
2024	37,825	505,000	30,250	573,075
2025	30,250	515,000	22,525	567,775
2026	22,525	525,000	14,650	562,175
2027	14,650	540,000	7,563	562,213
2028	7,562	550,000	-	557,562
	\$ 160,437	\$ 3,125,000	\$ 112,813	\$ 3,398,250

Annual Requirements for All Series			
Due During Fiscal Years Ending June 30,	Total Principal Due	Total Interest Due	Total Principal and Interest
2023	\$ 1,000,000	\$ 95,650	\$ 1,095,650
2024	505,000	68,075	573,075
2025	515,000	52,775	567,775
2026	525,000	37,175	562,175
2027	540,000	22,213	562,213
2028	550,000	7,562	557,562
	\$ 3,635,000	\$ 283,450	\$ 3,918,450

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

ANALYSIS OF CHANGES IN WATERWORKS AND SEWER REVENUE BONDS FOR THE YEAR ENDED JUNE 30, 2022

	<u>Series 2018</u>	<u>Series 2020</u>	<u>Total</u>
Interest rates	5.00%	4.0%-5.0%	
Dates interest payable	8/15 - 2/15	8/15 - 2/15	
Maturity dates	08/28	08/33	
Bonds outstanding, beginning of current period	\$ 2,235,000	\$ 3,705,000	\$ 5,940,000
New bond proceeds	-	-	-
Retirements, principal	<u>235,000</u>	<u>185,000</u>	<u>420,000</u>
Bonds outstanding, end of current period	<u>\$ 2,000,000</u>	<u>\$ 3,520,000</u>	<u>\$ 5,520,000</u>
Interest paid during current period	<u>\$ 105,875</u>	<u>\$ 162,725</u>	<u>\$ 268,600</u>

Paying agent's name and address:

Series 2018 - BOKF NA, 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225

Series 2020 - BOKF NA, 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

ANALYSIS OF CHANGES IN GENERAL LONG-TERM DEBT FOR THE YEAR ENDED JUNE 30, 2022

	Bond Issues		
	Series 2011	Series 2015	Total
Interest rates	3.5% - 4.0%	2.0% - 4.0%	
Dates interest payable	8/15 - 2/15	8/15 - 2/15	
Maturity dates	08/22	08/27	
Bonds outstanding, beginning of current period	\$ 1,030,000	\$ 3,595,000	\$ 4,625,000
New bond proceeds	-	-	-
Retirements, principal	520,000	470,000	990,000
Bonds outstanding, end of current period	\$ 510,000	\$ 3,125,000	\$ 3,635,000
Interest paid during current period	\$ 30,800	\$ 104,650	\$ 135,450

Paying agent's name and address:

Series 2011 - BOKF NA, 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225

Series 2015 - BOKF NA, 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225

Bond authority	Tax Bonds	Revenue Bonds	Refund Bonds
Amount authorized by voters	\$74,275,000	\$ -	\$12,960,000
Amount issued	-	-	12,960,000
Remaining to be issued (Note 12)	74,275,000	-	-
Debt service fund cash and temporary investment balances as of June 30, 2022			\$ 1,082,838
Average annual debt service payment (principal and interest) for remaining term of all debt			\$ 653,075

Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

COMPARATIVE STATEMENT OF REVENUES AND EXPENSES PROPRIETARY FUND FOR THE FIVE YEARS ENDED JUNE 30, 2022

	Amounts				
	2022	2021	2020	2019	2018
Operating revenues					
Charges for service	\$ 5,569,170	\$ 5,322,258	\$ 5,037,645	\$ 4,772,218	\$ 4,789,340
Tap fees	312,029	161,364	155,017	118,070	99,621
Inspection and miscellaneous fees	804,313	606,191	666,284	635,707	570,360
Total revenues	<u>6,685,512</u>	<u>6,089,813</u>	<u>5,858,946</u>	<u>5,525,995</u>	<u>5,459,321</u>
Expenses					
Personnel	2,623,400	2,559,290	2,385,877	2,405,725	2,348,369
Professional fees	90,471	80,508	82,959	61,859	37,503
Purchased and contracted services	109,795	97,208	134,501	128,112	117,470
Consumable supplies and materials	302,000	258,847	275,625	221,153	215,147
Recurring operating expenses	1,926,157	1,643,009	1,492,187	1,460,482	1,601,330
Depreciation and amortization	1,512,235	1,530,344	1,563,212	1,537,743	1,535,635
Total expenses	<u>6,564,058</u>	<u>6,169,206</u>	<u>5,934,361</u>	<u>5,815,074</u>	<u>5,855,454</u>
Excess (expenses)	<u>121,454</u>	<u>(79,393)</u>	<u>(75,415)</u>	<u>(289,079)</u>	<u>(396,133)</u>
Nonoperating Revenues					
Gain/(Loss) on disposition of assets	-	-	-	35,150	184,111
Interest income	8,860	11,884	13,755	12,401	6,204
Rental income	7,314	2,637	5,823	8,235	2,125
Developer contributions	207,350	733,689	661,817	243,033	288,518
Interest expense on revenue bonds	(128,714)	(201,412)	(166,492)	(220,091)	(325,106)
State grant revenue	216	-	39,949	-	-
Grant revenue	5,306	16,807	82,658	414,270	-
Grant related repair expenses	-	-	-	(113,210)	-
Bond issue cost	-	-	(190,996)	-	(130,886)
Total nonoperating revenues	<u>100,332</u>	<u>563,605</u>	<u>446,514</u>	<u>379,788</u>	<u>24,966</u>
Net income (loss) before transfers	221,786	484,212	371,099	90,709	(371,167)
Transfer out	<u>(25,000)</u>	<u>(15,000)</u>	<u>(32,000)</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ 196,786</u>	<u>\$ 469,212</u>	<u>\$ 339,099</u>	<u>\$ 90,709</u>	<u>\$ (371,167)</u>
Total active retail water and/or wastewater connections	<u>9,027</u>	<u>8,732</u>	<u>8,436</u>	<u>8,311</u>	<u>8,176</u>

See Independent Auditor's Report on Supplementary Information.

Percent of Fund Total Revenues

2022	2021	2020	2019	2018
83.3%	87.4%	86.0%	86.4%	87.8%
4.7%	2.6%	2.6%	2.1%	1.8%
12.0%	10.0%	11.4%	11.5%	10.4%
100.0%	100.0%	100.0%	100.0%	100.0%
39.2%	42.0%	40.7%	43.5%	43.0%
1.4%	1.3%	1.4%	1.1%	0.7%
1.6%	1.6%	2.3%	2.3%	2.2%
4.5%	4.3%	4.7%	4.0%	3.9%
28.8%	27.0%	25.5%	26.4%	29.3%
22.6%	25.1%	26.7%	27.8%	28.1%
98.1%	101.3%	101.3%	105.1%	107.2%
1.9%	-1.3%	-1.3%	-5.1%	-7.2%
0.0%	0.0%	0.0%	0.6%	3.4%
0.1%	0.2%	0.2%	0.2%	0.1%
0.1%	0.0%	0.1%	0.1%	0.0%
3.1%	12.0%	11.3%	4.4%	5.3%
-1.9%	-3.3%	-2.8%	-4.0%	-6.0%
0.0%	0.0%	0.7%	0.0%	0.0%
0.1%	0.3%	1.4%	7.5%	0.0%
0.0%	0.0%	0.0%	-2.0%	0.0%
0.0%	0.0%	-3.3%	0.0%	-2.4%
1.5%	9.2%	7.6%	6.8%	0.4%
3.4%	7.9%	6.3%	1.7%	-6.8%
-0.4%	-0.2%	-0.5%	0.0%	0.0%
3.0%	7.7%	5.8%	1.7%	-6.8%

LUMBERTON MUNICIPAL UTILITY DISTRICT

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES DEBT SERVICE FUND FOR THE FIVE YEARS ENDED JUNE 30, 2022

	Amounts				
	2022	2021	2020	2019	2018
Revenues					
Property taxes, including penalty and interest	\$1,185,037	\$1,163,602	\$1,163,407	\$1,166,443	\$1,498,711
Interest from investments	999	913	988	958	338
Miscellaneous	5,464	5,847	4,986	6,501	5,225
Total revenues	1,191,500	1,170,362	1,169,381	1,173,902	1,504,274
Expenditures					
Tax collection and assessing expenses and miscellaneous	44,964	47,470	40,548	53,334	55,498
Debt services, principal and interest	1,125,450	1,125,825	1,131,563	1,475,162	1,466,325
Total expenditures	1,170,414	1,173,295	1,172,111	1,528,496	1,521,814
Excess (deficit) of revenue over expenditures	21,086	(2,933)	(2,730)	(354,594)	(17,540)
Other financing sources					
Transfer in	25,000	15,000	32,000	-	-
Net change in fund balance	\$ 46,086	\$ 12,067	\$ 29,270	\$ (354,594)	\$ (17,540)

See Independent Auditor's Report on Supplementary Information.

Percent of Fund Total Revenues				
2022	2021	2020	2019	2018
99.5%	99.4%	99.5%	99.4%	99.7%
0.1%	0.1%	0.1%	0.0%	0.0%
0.4%	0.5%	0.4%	0.6%	0.3%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
3.8%	4.1%	3.5%	4.5%	3.7%
<u>94.5%</u>	<u>96.2%</u>	<u>96.8%</u>	<u>125.6%</u>	<u>97.4%</u>
<u>98.3%</u>	<u>100.3%</u>	<u>100.3%</u>	<u>130.1%</u>	<u>101.1%</u>
1.7%	-0.3%	-0.3%	-30.1%	-1.1%
<u>2.1%</u>	<u>1.3%</u>	<u>2.7%</u>	<u>0.0%</u>	<u>0.0%</u>
<u>3.8%</u>	<u>1.0%</u>	<u>2.4%</u>	<u>-30.1%</u>	<u>-1.1%</u>

LUMBERTON MUNICIPAL UTILITY DISTRICT

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS FOR THE YEAR ENDED JUNE 30, 2022

Complete District Mailing Address: Lumberton Municipal Utility District
PO Box 8065
Lumberton, Texas 77657

District Business Telephone Number: (409) 755-1559

<u>Name and Address</u>	<u>Term of Office Date Elected or Date Hired</u>	<u>Salary</u>	<u>Expense Reimbursements</u>	<u>Title at Year-End</u>	<u>Resident of District</u>
Board Members					
Nicholas N. Carter 7760 Rosewood Drive Lumberton, Texas 77657	05/2022 - 05/2026	\$ -	\$ -	President	Yes
Roger Smith 136 Greenleaf Lumberton, Texas 77657	05/2020 - 05/2024	-	-	Vice- President	Yes
David C. Pitchford 5695 Lexington Lumberton, Texas 77657	05/2022 - 05/2026	-	-	Secretary	Yes
James B. (Jimmy) Burk 121 Rolling Hills Lumberton, Texas 77657	05/2022 - 05/2026	-	-	Asst. Secretary	Yes
David L. Desormeaux 280 Creekwood Lumberton, Texas 77657	05/2020 - 05/2024	-	-	Board Member	Yes

Key Administrative Personnel

Robert Starr 13662 FM 421 Kountze, TX 77625	12/01/2019- Present	119,603	9,000	Manager	No
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NOTE: No director is disqualified from serving on the board of the District under the Texas Water Code.

See Independent Auditor's Report on Supplementary Information.

LUMBERTON MUNICIPAL UTILITY DISTRICT

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS FOR THE YEAR ENDED JUNE 30, 2022 (CONTINUED)

<u>Name and Address</u>	<u>Term of Office Date Elected or Date Hired</u>	<u>Fees and Expense Reimbursements June 30, 2021</u>	<u>Title at Year-End</u>	<u>Resident of District</u>
Consultants				
Germer PLLC 550 Fannin, Suite 400 Beaumont, Texas 77701	10/12/1992	\$ 85,773	Attorney	N/A
Wathen, DeShong & Juncker, L.L.P. 4140 Gladys Avenue, Suite 101 Beaumont, Texas 77706	06/29/2006	25,028	Auditor	N/A
LJA Engineering, Inc. 905 Orleans Street Beaumont, Texas 77701	04/06/2016	99,679	Engineer	N/A

See Independent Auditor's Report on Supplementary Information.

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA
Troy W. Domingue, CPA



Stanley (Chip) Majors, Jr., CPA, CITP, CGMA
Jane P. Burns, CPA, CDFA
Jeremy R. Triska, CPA

September 19, 2022

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

To the Board of Directors
Lumberton Municipal Utility District
Lumberton, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Lumberton Municipal Utility District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Lumberton Municipal Utility District's basic financial statements, and have issued our report thereon dated September 19, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Wathen, DeShong & Juncker, L.L.P.
WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants