



SPRINGS HILL
SPECIAL UTILITY DISTRICT

SPRINGS HILL SPECIAL UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2024**

SPRINGS HILL SPECIAL UTILITY DISTRICT
 ANNUAL FINANCIAL REPORT
 FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

TABLE OF CONTENTS

	PAGE
TITLE PAGE	i
TABLE OF CONTENTS	ii
ANNUAL FILING AFFIDAVIT	1
INDEPENDENT AUDITOR’S REPORT.....	2
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS	8
STATEMENT OF NET POSITION.....	9
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION.....	10
STATEMENT OF CASH FLOWS.....	11
NOTES TO FINANCIAL STATEMENTS.....	13
REQUIRED SUPPLEMENTARY INFORMATION	22
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BUDGET AND ACTUAL.....	23
SUPPLEMENTARY INFORMATION	25
TSI-1. SERVICES AND RATES	26
TSI-2. ENTERPRISE FUND EXPENSES	28
TSI-3. TEMPORARY INVESTMENTS	29
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES*	30
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS	31
COMPLIANCE SECTION	32
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>	33

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS :

COUNTY OF GUADALUPE :

I, Michael Andrews, of Springs Hill Special Utility District hereby swear, or affirm, that the District named above has reviewed and approved, at a meeting of the District's Board of Directors on the 29th day of April, 2025, its annual audit report of the fiscal period ended December 31, 2024, and that copies of the annual audit report have been filed in the District's office located at 5510 S. St Hwy 123 Bypass, Seguin, Texas 78155.

This annual filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of the Texas Water Code Section 49.194.

Date: April 29, 2025 By: [Signature]
(Signature of District Official)

Michael Andrews, General Manager & Board Secretary
(Typed Name & Title of District Representative)

Sworn to and subscribed to before me this 30 day of April, 2025.

[Signature]
(Signature of Notary)



Commission expires on August 14, 2025
Notary Public in the State of Texas



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Springs Hill Special Utility District
P.O. Box 29
Seguin, Texas 78156

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of business-type activities of Springs Hill Special Utility District, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Springs Hill Special Utility District, as of December 31, 2024, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Springs Hill Special Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Springs Hill Special Utility District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 Springs Hill Special Utility District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS 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 Springs Hill Special Utility District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Springs Hill Special Utility District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Springs Hill Special Utility District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2025 on our consideration of Springs Hill Special Utility District's control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Springs Hill Special Utility District's internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

April 17, 2025

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Springs Hill Special Utility District’s annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year ended December 31, 2024. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District ended 2024 with net assets of \$40.9 million.
- During the year, the District’s operating revenues were \$901 thousand less than the \$2.8 million in operating expenses.
- The District converted from a Water Supply Corporation in late 2024, inheriting \$4.0 million in debt, and \$27 million in capital assets. More information regarding the conversion can be found in the notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), *the basic financial statements*, *required supplementary information*, and *supplementary information required by the Texas Commission on Environmental Quality*. The basic financial statements consist of the following statements:

- The *Statement of Net Position* shows the financial standing of the District as of the end of the year, including all assets and liabilities.
- The *Statement of Revenues, Expenses and Changes in Net Position* provides information about the activity of the District during the fiscal year. It reports revenues when incurred, regardless of when they are received, and expenses when incurred, regardless of when they are paid.
- The *Statement of Cash Flows* reports the sources and uses of cash during the fiscal year.

The financial statements also include notes that explain a few of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The final section of supplementary information provides even more information required by TCEQ.

FINANCIAL ANALYSIS OF THE DISTRICT

Net position—the difference between the District’s assets and liabilities—is one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net position is an indicator of whether its financial health is improving or deteriorating, respectively.

The District's combined net position was \$40.9 million at December 31, 2024. Of this amount, \$23.4 million was invested in capital assets, leaving an unrestricted net position of \$17.5 million. (See Table A-1).

Table A-1
District's Net Position

	2024	2023	Percentage Change
<i>Assets:</i>			
Cash and Investments	\$25,557,578	\$ -	100%
Other Current Assets	1,376,356	-	100%
Other Assets	11,000	-	100%
Capital Assets (Net)	27,250,512	-	100%
<i>Total Assets</i>	<u>54,195,446</u>	<u>-</u>	100%
<i>Liabilities:</i>			
Current	9,865,195	-	100%
Long Term Debt	3,403,435	-	100%
<i>Total Liabilities</i>	<u>13,268,630</u>	<u>-</u>	100%
<i>Net Position:</i>			
Net Investment in Capital Assets	23,416,059	-	100%
Unrestricted	17,510,757	-	100%
<i>Total Net Position</i>	<u>\$40,926,816</u>	<u>\$ -</u>	100%

The District's total operating revenues were \$1.9 million. The operating expenses were \$2.8 million. Rapid growth is occurring in the District leading to higher revenues and expenses. Non-operating revenues mainly came from the donation of Net Assets from Springs Hill Water Supply Corporation. (See Table A-2)

Table A-2
Changes in District Net Position

	2024	2023	Percentage Change
Operating Revenues	\$ 1,855,030	\$ -	100%
Operating Expenses	(2,756,282)	-	100%
Operating Income (Loss)	(901,252)	-	100%
Non-operating Income (Expense)	41,828,068	-	100%
Change in Net Position	40,926,816	-	100%
Beginning Net Position	-	-	0%
Ending Net Position	<u>\$40,926,816</u>	<u>\$ -</u>	100%

BUDGETARY HIGHLIGHTS

The District converted in the current fiscal year after the budgeting period. Because of this, a budget was not completed for the shortened year. Management budgeted for 2025 with expected growth in both revenues and expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2024, the District had invested \$27.3 million in a broad range of capital assets, including land, buildings, equipment, treatment plants, and distribution systems. (See Table A-3.) More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table A-3
District's Capital Assets

	2024	2023	Percentage Change
Land and Land Rights	\$ 1,760,706	\$ -	100%
Construction in Progress	3,243,372	-	100%
Buildings and Improvements	758,577	-	100%
Vehicles and Equipment	1,260,659	-	100%
Water Plant and Distribution	41,542,114	-	100%
Totals at Historical Cost	<u>48,565,428</u>	<u>-</u>	<u>100%</u>
Total Accumulated Depreciation	(21,314,916)	-	100%
Net Capital Assets	<u>\$27,250,512</u>	<u>\$ -</u>	<u>100%</u>

Long-Term Debt

The District has outstanding notes payable in the amount of \$3.8 million. (See Table A-4) More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table A-4
District's Long Term Debt

	2024	2023	Percentage Change
Notes Payable	\$ 3,834,453	\$ -	100%
Total Long-Term Debt	<u>\$ 3,834,453</u>	<u>\$ -</u>	<u>100%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2025 budget expects continued development throughout the District that will generate significant increase in water sales and impact fees. Rapid development in the area continues to put demands on the District's system and for more water sources.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 5510 S. St Hwy 123 Bypass, Seguin, Texas 78155.

BASIC FINANCIAL STATEMENTS

The basic financial statements include:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

SPRINGS HILL SPECIAL UTILITY DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2024

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 24,614,628
Certificates of Deposit	649,264
Accounts Receivable - Members (net)	166,391
Unbilled Revenue	826,363
Prepaid Expenses	77,652
Inventory	305,950
<i>Total Current Assets</i>	26,640,248

Other Assets:

Restricted Cash - Debt Service and Debt Reserves	293,686
CoBank and CRWA Memberships	11,000
<i>Total Other Assets</i>	304,686

<i>Capital Assets (net)</i>	27,250,512
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TOTAL ASSETS	\$ 54,195,446
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 1,240,877
Accrued Salaries and Compensated Absences	140,417
Accrued Interest	29,017
Customer Deposits	3,025,366
Unearned Reservation Fees	4,998,500
Notes Payable within One Year	431,018
<i>Total Current Liabilities</i>	9,865,195

Long-term Liabilities:

Notes Payable in More than One Year	3,403,435
<i>Total Long-term Liabilities</i>	3,403,435

TOTAL LIABILITIES	13,268,630
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NET POSITION

Net Investment in Property and Equipment	23,416,059
Unrestricted	17,510,757
TOTAL NET POSITION	40,926,816

TOTAL LIABILITIES AND NET POSITION	\$ 54,195,446
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SPRINGS HILL SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2024

Operating Revenues:	
Water Sales	\$ 1,765,310
Other Charges	89,720
Total Operating Revenues	<u>1,855,030</u>
 Operating Expenses:	
Water Purchases	1,050,269
Depreciation	239,204
Personnel Costs	496,773
Supplies and Maintenance	438,743
Administrative and Other Expenses	194,156
Professional Fees	300,429
Utilities	36,708
Total Operating Expenses	<u>2,756,282</u>
Operating Income (Loss)	<u>(901,252)</u>
 Non-Operating Revenues (Expenses):	
Contributions in Aid of Construction	466,125
Miscellaneous Income	13,662
Investment Income	74,291
Interest Expense	(16,402)
WSC Conversion Contribution	41,290,392
Total Non-Operating Revenues (Expenses)	<u>41,828,068</u>
Change in Net Position	40,926,816
Net Position at Beginning of Year	<u>-</u>
Net Position at End of Year	<u><u>\$ 40,926,816</u></u>

SPRINGS HILL SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 3,281,643
Cash Payments to Suppliers for Goods and Services	(2,095,163)
Cash Payments to Employees for Services	(493,135)
Cash Paid for Interest	(12,615)
Net Cash Provided (Used) by Operating Activities	<u>680,730</u>
 Cash Flows from Investing Activities	
Investment Income	74,291
Cash Donation from Water Supply Corporation	24,064,966
Purchase/Reinvestment in Certificates of Deposit	(3,683)
Miscellaneous Receipts	13,662
Purchases of Property and Equipment	(176,777)
Net Cash Provided (Used) by Investing Activities	<u>23,972,459</u>
 Cash Flows from Financing Activities	
Principal Payments on Notes Payable	(211,000)
Contributions in Aid of Construction	466,125
Net Cash Provided (Used) by Financing Activities	<u>255,125</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 24,908,314
 Beginning Cash and Cash Equivalents	 <u>-</u>
Ending Cash and Cash Equivalents	<u>\$ 24,908,314</u>
 Reconciliation to Statement of Financial Position	
Cash and Cash Equivalents	\$ 24,614,628
Cash Restricted for Debt Reserves	293,686
Total	<u>\$ 24,908,314</u>

SPRINGS HILL SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED DECEMBER 31, 2024

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (901,252)
Adjustments to Reconcile Income from Operations to Net Cash	
Provided by Operating Activities:	
Depreciation	239,204
Interest Expense	(16,402)
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable - Members	185,800
(Increase) Decrease in Prepaid Expenses	24,506
(Increase) Decrease in Inventory	183,092
Increase (Decrease) in Accounts Payable	(282,456)
Increase (Decrease) in Accrued Salaries and Compensated Absences	3,638
Increase (Decrease) in Deposits	28,813
Increase (Decrease) in Accrued Interest	3,787
Increase (Decrease) in Unearned Reservation Fees	1,212,000
Net Cash Provided (Used) by Operating Activities	\$ 680,730

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Springs Hill Special Utility District (the “District”) was created pursuant to Texas House Bill 5303, 88th Legislature, R.S. (2024), further codified in Texas Special District Local Laws Code Chapter 7208, enacted under the authority granted to the Texas Legislature in Texas Constitution article XVI Section 59. Prior to that date the District operated as a Water Supply Corporation. The District was organized to furnish potable water utility services. The District is managed by a Board of Directors consisting of five (5) members elected by voters residing in the District’s boundaries. The District serves customers in Guadalupe County.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below:

1. REPORTING ENTITY

In evaluating how to define the government for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14, “The Financial Reporting Entity” and GASB Statement 39 “Determining Whether Certain Organizations are Component Units”. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The District has no component units.

2. ENTERPRISE FUND

The District is an enterprise fund. Enterprise funds are proprietary funds used to account for business-type activities provided to the general public or other governmental entities. The activities are financed by charges to customers and the measurement of financial activity focuses on net income similar to the private sector. Revenues are recognized when earned, and expenses are recognized when incurred.

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Revenues are classified as *operating* and *non-operating*. Operating revenues include charges to customers for water and wastewater services. Non-operating revenues include customer charges for capital expansion and interest income.

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

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2024

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. CASH AND INVESTMENTS

State statutes authorize the District to invest in (a) obligations of the United States or its agencies, and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) – (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

Investments are stated at fair value (plus accrued interest) except for money market, certificates of deposit, local government investment pools, and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost, which approximates fair value.

The District considers cash and cash equivalents to be amounts in checking accounts, savings accounts, money market accounts, and local government investment pools.

5. ACCOUNTS RECEIVABLE

Customers are billed monthly for services and recorded as revenue in the period of the service. Often bills are issued in subsequent months for water consumption in the previous month. Revenue earned in a previous period is recorded as an unbilled receivable at the end of each period. Accounts receivable consists of amounts due from customers for services rendered and is presented net of an allowance for doubtful accounts based on management's estimate.

6. PREPAID EXPENSES

Expenses recorded in advance of the service or product being received are deferred and carried on the statement of net position as prepaid expenses.

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2024

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and water plant and distribution systems, are recorded at 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 and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest has not been capitalized during the construction periods on water plant and distribution systems. Purchases with a useful life in excess of one year and a cost of at least \$1,000 are capitalized and depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	5 to 40 years
Vehicles and Equipment	5 to 20 years
Water Plants and Distribution Systems	5 to 30 years

8. COMPENSATED ABSENCES

Employees of the District are entitled to paid time off (PTO) depending on the length of service. Time is accrued each pay period and employees may carry over 80 hours each calendar year. All of the paid time off is payable upon termination. The balance of the unpaid PTO is accrued at the end of each year.

9. CUSTOMER DEPOSITS

Owners have the option of requiring a renter pay a \$150 refundable deposit for water service. Upon change in tenants, the deposit may be returned to the renter or applied toward the final bill.

10. USE OF ESTIMATES

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

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2024

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. LONG-TERM OBLIGATIONS

Bonds, notes and capital leases are recorded as liabilities on the statement of net position. Bond issue costs are expensed in the period they are incurred. Bonds payable are reported net of the applicable bond premium or discount. Interest costs are expensed during the construction period.

12. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When expenses qualify for restricted and unrestricted resources, the District's policy is to use restricted resources first.

13. BUDGET

An operating budget is adopted each fiscal year for the District. The budget adopted on a cash basis of accounting internally and converted to accrual basis for financial reporting. Additional budgetary information is provided in the required supplementary information.

NOTE B -- CASH AND INVESTMENTS

1. Cash and Cash Equivalents

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledge securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. At December 31, 2024, the District's bank deposits were covered by a combination of federal deposit insurance and pledged securities. All of the District's deposits were fully collateralized.

2. Investments

The District does not currently have investments. However, the District is in the process of adopting an investment policy in compliance with the Public Funds Investment Act and will obtain the necessary training prior to purchasing any investments.

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2024

NOTE C -- ACCOUNTS RECEIVABLE

Balance at year end is made up of the following:

	2024
Customer Balances	\$ 165,705
Other Billings	46,062
Allowance for Uncollectibles	(45,376)
	\$ 166,391

NOTE D -- CAPITAL ASSETS

Changes to the District's property, plant, and equipment for the year ended December 31, 2024 was as follows:

	Balances at 1/1/2024	Transferred From WSC	Additions	Transfer/ Disposals	Balances at 12/31/2024
Land and Land Rights	\$ -	\$ 1,760,706	\$ -	\$ -	\$ 1,760,706
Construction in Progress	-	3,066,595	176,777	-	3,243,372
Buildings and Improvements	-	758,577	-	-	758,577
Vehicles and Equipment	-	1,260,659	-	-	1,260,659
Water Plant and Distribution	-	41,542,114	-	-	41,542,114
	-	48,388,651	176,777	-	48,565,428
<i>Less Accumulated Depreciation</i>					
Building and Improvements	-	(408,730)	(4,582)	-	(413,312)
Vehicles and Equipment	-	(834,326)	(24,815)	-	(859,141)
Water Plant and Distribution	-	(19,832,656)	(209,807)	-	(20,042,463)
	-	(21,075,712)	(239,204)	-	(21,314,916)
Property & Equipment, Net	\$ -	\$ 27,312,939	\$ (62,427)	\$ -	\$ 27,250,512

Land and Construction in Progress are not depreciated.

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2024

NOTE E -- LONG TERM DEBT

The District has the following outstanding debts:

Series Name	Original Issue		Interest Rate	Maturity Date	Payment Frequency	Payment Amount
	Amount	Date				
<i>Texas Water Development Board</i>						
American Recovery and Reinvestment Act Loan	\$ 3,130,000	2/24/2010	0.00%	12/31/2030	Annual	\$ 156,000
Drinking Water State Revolving Fund Loan	\$ 1,100,000	5/2/2013	0.63%-4.64%	11/1/2032	Annual	\$ 83,276
<i>CoBank</i>						
Note Payable RI1421T01	\$ 3,950,692	10/31/2015	6.27%	10/31/2033	Quarterly	Varies

The Texas Water Development Board (TWDB) loans require the District to deposit 1/60th of the average annual debt service requirements into a separate bank account monthly until 1 full year is in the account. The District has complied with this requirement and shows this as restricted cash on the statement of financial position.

The CoBank monthly payment is based on a principal amortization from an initial interest rate. The interest has since become fixed at a higher rate. As such, the interest component each month fluctuates with the original scheduled principal payments. The CoBank note require a debt service coverage ratio of 1.25 to 1.00 and a debt to capitalization ratio of 0.65 to 1.00. The District has complied with these requirements.

The District's long-term debt activity as of and for the year ending December 31, 2024 is as follows:

Bonds Payable, Series	Balance Outstanding	Transferred From WSC	Additions	Retirements	Balance Outstanding	Due Within One Year
	1/1/2024				12/31/2024	
ARRA Loan	\$ -	\$ 1,102,000	\$ -	\$ (156,000)	\$ 946,000	\$ 156,000
State Revolving Loan	-	585,000	-	(55,000)	530,000	60,000
CoBank RI1421T02	-	2,368,133	-	-	2,368,133	216,228
Unamortized Issuance Costs	-	(9,680)	-	-	(9,680)	(1,210)
Totals	\$ -	\$ 4,045,453	\$ -	\$ (211,000)	\$ 3,834,453	\$ 431,018

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2024

NOTE E -- LONG TERM DEBT (Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2024, including interest payments, are as follows:

<u>Year End December 31,</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2025	\$ 432,228	\$ 166,201	\$ 598,429
2026	442,683	150,080	592,763
2027	458,644	133,192	591,836
2028	470,135	115,329	585,464
2029	482,181	96,670	578,851
2030-2033	1,558,262	181,086	1,739,348
Total	<u>\$ 3,844,133</u>	<u>\$ 842,558</u>	<u>\$ 4,686,691</u>

NOTE F -- RETIREMENT PLAN

The District sponsors a 401(k) retirement plan administered by the Principal Life Insurance Company. Employees are eligible to join the plan after completing one year of service with at least 1,000 hours. The District contributes up to and including 7% of eligible employee's wages. Employee contributions are voluntary and are required in order to receive the employer contributions. Employees vest after three years of service with the District. Annual contributions were \$7,449 for the year ending December 31, 2024.

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2024

NOTE G -- WATER PURCHASE CONTRACTS

The District has contracted to purchase water from Guadalupe Blanco River Authority (GBRA), Schertz Seguin Local Government District (SSLGC), Canyon Regional Water Authority (CRWA), and an individual to sell to members. CRWA is a joint venture and more information can be found later in the notes to the financial statements. The schedule below summarizes the estimated annual commitment on the District's water contracts and purchases, calculated at rates currently in effect.

Year End December 31,	GBRA	SSLGC	Water Purchases	Total
Contract Expiration	12/31/2050	8/23/2033	2/1/2025	
Acre Feet	<u>2,850</u>	<u>722</u>	<u>192</u>	<u>3,764</u>
2025	\$ 588,804	\$ 387,093	\$ 29,206	\$ 1,005,103
2026	588,804	387,093	26,931	1,002,828
2027	588,804	387,093	-	975,897
2028	588,804	387,093	-	975,897
2029	588,804	387,093	-	975,897
2030-2034	2,944,020	1,548,372	-	4,492,392
2035-2039	2,944,020	-	-	2,944,020
2040-2044	2,944,020	-	-	2,944,020
2045-2049	2,944,020	-	-	2,944,020
2050	588,804	-	-	588,804
	<u>\$ 15,308,904</u>	<u>\$ 3,483,837</u>	<u>\$ 56,136</u>	<u>\$ 18,848,877</u>

NOTE H -- JOINT VENTURE – CANYON REGIONAL WATER AUTHORITY

The District is a member entity of Canyon Regional Water Authority (CRWA) through a regional taxable water supply contract dated August 1, 1998. CRWA was created to purchase, own, hold, lease, and otherwise acquire sources of potable water; build, operate and maintain facilities for the treatment and transportation of water; sell potable water to local governments, water supply districts and other persons in Texas; and to protect, preserve and restore the purity and sanitary condition of water in the area. The participating entities, of which there are 14, are contractually obligated to fund a pro-rated portion of CRWA's operations, debt service, and project costs. The District has pledged its system revenues to fund its share of CRWA costs (approximately 9%).

For the fiscal year ending September 30, 2024, CRWA's expenses totaled \$19.8 million, and, as of September 30, 2024, CRWA had bonds outstanding of \$98 million. The District has recorded the initial \$10,000 membership fee as an asset and records the funding payments as water purchase costs each year. Annual water purchase costs for 2024 is \$525,095. Annual, audited financial statements for CRWA may be obtained by writing to Canyon Regional Water Authority, 850 Lakeside Pass, New Braunfels, Texas 78130.

SPRINGS HILL SPECIAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2024

NOTE I -- LITIGATION

Management and legal counsel are not aware of any other pending or threatened litigation that may have a material effect on the District's financial position.

NOTE J -- COMMITMENT

The District has a commitment outstanding as of year end for Canyon Regional Water Authority Separation Improvements in the amount of \$1,553,657, of which \$909,500 has been incurred, leaving \$644,157 remaining. The project is listed as Construction in Progress on the financial statements.

NOTE K -- CONVERSION FROM WATER SUPPLY CORPORATION

In May 2023, the State of Texas passed House Bill 5303. This bill authorized the conversion of Springs Hill Water Supply Corporation (the Corporation) to a Special Utility District, with the appropriate authorization of its members. In May 2024, the Corporation's members formally approved the conversion. On October 31, 2024 the Corporation formally donated all assets in the Corporation's possession to the District. The District assumed ownership and responsibility for all assets, liabilities, debt, and contractual obligations of the Corporation.

NOTE L -- RELATED PARTY

In 2024 the General Manager of Springs Hill Special Utility District also served as a member of the Board of Directors, information regarding their pay and reimbursements from the District can be found as part of the Supplementary Information, Texas Supplementary Information (TSI) 8.

REQUIRED SUPPLEMENTARY INFORMATION

SPRINGS HILL SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2024

	Budget Amounts*		Actual Amounts	Variance With Final Budget
	Original	Final		
Operating Revenues:				
Water Sales	\$ -	\$ -	\$ 1,765,310	\$ 1,765,310
Other Charges	-	-	89,720	89,720
Total Operating Revenues	-	-	1,855,030	1,855,030
Operating Expenses:				
Water Purchases	-	-	1,050,269	(1,050,269)
Depreciation	-	-	239,204	(239,204)
Personnel Costs	-	-	496,773	(496,773)
Supplies and Maintenance	-	-	438,743	(438,743)
Administrative and Other Expenses	-	-	194,156	(194,156)
Professional Fees	-	-	300,429	(300,429)
Utilities	-	-	36,708	(36,708)
Total Operating Expenses	-	-	2,756,282	(2,756,282)
Operating Income (Loss)	-	-	(901,252)	(901,252)
Non-Operating Revenues (Expenses):				
Contributions in Aid of Construction	-	-	466,125	466,125
Miscellaneous Income	-	-	13,662	13,662
Investment Income	-	-	74,291	74,291
Interest Expense	-	-	(16,402)	(16,402)
WSC Conversion Contribution	-	-	41,290,392	41,290,392
Total Non-Operating Revenues (Expenses)	-	-	41,828,068	41,828,068
Change in Net Position	-	-	40,926,816	40,926,816
Net Position at Beginning of Year	-	-	-	-
Net Position at End of Year	\$ -	\$ -	\$ 40,926,816	\$ 40,926,816

* Because the District converted in late 2024, with only 2 months left in the fiscal year, a budget was not adopted.

SPRINGS HILL SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2024

Budgetary Information – The budget is prepared on a cash basis of accounting. The annually adopted budget is not a legally binding document, but is used as a planning tool. The District does not use encumbrance accounting.

SUPPLEMENTARY INFORMATION

The following Supplementary Information is required to be included as additional information by the Texas Commission on Environmental Quality (TCEQ).

SPRINGS HILL SPECIAL UTILITY DISTRICT
TSI-1. SERVICES AND RATES
FISCAL YEAR ENDING DECEMBER 31, 2024

1. Services Provided by the District during the Fiscal Year:

- | | | |
|---|---|-------------------------------------|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input 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 checked="" type="checkbox"/> Participates in joint venture, regional system, and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other (specify): _____ | | |

2. Retail Service Providers

Retail Rates for a 5/8" Meter				Rate per 1,000	
	Minimum Charge	Minimum Usage	Flat Rate	Gallons Over Minimum	Usage Level
Water	\$ 41.00	N/A	No	\$ 4.00	0 to 2,500
				\$ 4.65	2,500 to 5,000
				\$ 4.90	5,000 to 15,000
				\$ 5.40	15,000 to 25,000
				\$ 5.90	25,000 to 45,000
				\$ 6.00	Over 45,000
Wastewater	N/A	N/A	N/A	\$ -	0 to 5,000
				\$ -	Over 5,000
Surcharge	\$ -			\$ -	

District employs winter averaging for wastewater usage? N/A

Total Charges per 10,000 gallons usage:

	Water	<u>\$ 87.13</u>
	Wastewater	<u>N/A</u>

Water and Wastewater Retail Connections

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	0	0	1.0	0
<=3/4"	12,488	11,770	1.0	11,770
1"	84	69	2.5	173
1 1/2"	11	11	5.0	55
2"	7	31	8.0	248
3"	10	4	15.0	60
4"	1	3	25.0	75
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>12,601</u>	<u>11,888</u>		<u>12,381</u>
Total Wastew	<u>0</u>	<u>0</u>	1.0	<u>0</u>

SPRINGS HILL SPECIAL UTILITY DISTRICT
 TSI-1. SERVICES AND RATES (CONTINUED)
 FISCAL YEAR ENDING DECEMBER 31, 2024

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):

Gallons pumped into system	266,062,897		Water Accountability Ratio: (Gallons billed/Gallons pumped)
Gallons billed to customers:	192,895,600		90%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby Fees? Yes No

If yes, Date of the most recent Commission Order: _____

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

If yes, Date of the most recent Commission Order: _____

5. Location of District:

Counties in which the District is located: Guadalupe

Is the District located entirely within one county? Yes No

Is the District located within a city? Entirely Partly Not at all

Cities in which the District is located: Seguin

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

ETJs in which the District is located: Seguin

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

SPRINGS HILL SPECIAL UTILITY DISTRICT
 TSI-2. ENTERPRISE FUND EXPENSES
 FISCAL YEAR ENDING DECEMBER 31, 2024

Personnel Expenditures (including benefits)		\$ 496,773
Professional Fees:		
Legal		63,224
Engineering		206,795
Accounting and Audit		30,410
Water and Transmission Costs		1,050,269
Utilities		36,708
Supplies and Maintenance		438,743
Administrative Expenses		194,156
Depreciation and Amortization		239,204
Interest		<u>16,402</u>
Total Expenses		<u><u>\$2,772,684</u></u>
Total number of persons employed by the District	Full-Time	<u>30</u>
	Part-Time	<u>0</u>

SPRINGS HILL SPECIAL UTILITY DISTRICT
 TSI-3. TEMPORARY INVESTMENTS
 FISCAL YEAR ENDING DECEMBER 31, 2024

<u>Investment Type</u>	<u>Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
Certificate of Deposit	4000405	3.50%	6/14/2026	\$ 223,604	--
Certificate of Deposit	xxx0501	3.25%	12/19/2025	217,585	--
Certificate of Deposit	xxx0787	0.20%	6/24/2025	208,075	--
Total				<u>\$ 649,264</u>	<u>--</u>

The following sections have been omitted since they do not pertain to this entity:

- TSI-4. Taxes Levied and Receivable
- TSI-5. Long-Term Debt Service Requirements
- TSI-6. Changes in Long-Term Bonded Debt

SPRINGS HILL SPECIAL UTILITY DISTRICT
 TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES*
 FISCAL YEAR ENDING DECEMBER 31, 2024

	2024	Percent of Revenues 2024
Operating Revenues:		
Water Sales	\$ 1,765,310	95.2%
Other Charges	89,720	4.8%
Total Operating Revenues	1,855,030	100.0%
Operating Expenses:		
Water Purchases	1,050,269	56.6%
Depreciation	239,204	12.9%
Personnel Costs	496,773	26.8%
Supplies and Maintenance	438,743	23.7%
Administrative and Other Expenses	194,156	10.5%
Professional Fees	300,429	16.2%
Utilities	36,708	2.0%
Total Operating Expenses	2,756,282	148.6%
Operating Income (Loss)	(901,252)	-48.6%
Non-Operating Revenues (Expenses):		
Contributions in Aid of Construction	466,125	25.1%
Miscellaneous Income	13,662	0.7%
Investment Income	74,291	4.0%
Interest Expense	(16,402)	-0.9%
WSC Conversion Contribution	41,290,392	2225.9%
Total Non-Operating Revenues (Expenses)	41,828,068	2254.8%
Change in Net Position	40,926,816	2206.3%

* TCEQ requires 5 years to be presented, Springs Hill SUD will accumulate comparison over time.

SPRINGS HILL SPECIAL UTILITY DISTRICT
 TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
 FISCAL YEAR ENDING DECEMBER 31, 2024

Complete Entity Mailing Address: 5510 S. St Hwy 123 Bypass, Seguin, Texas 78155

Entity Business Telephone Number: 830-379-7683

Submission Date of the most recent Registration Form: N/A

Limit of Fees of Office that a Trustee may receive during a fiscal year: \$7,200

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid* 12/31/24	Expense Reimbursements 12/31/24	Title at Year End
Board of Trustees:				
James Martin	9/24-9/27	\$ 75	---	President
Bernie Mueller	9/24-9/26	\$ 75	---	Vice President
Michael Andrews	9/24-9/26	\$ 75	\$ 464	Secretary
Deborah Magin	9/24-9/27	\$ 75	---	Assistant Secretary
Randy Smith	9/24-9/25	\$ 175	---	Director
Administrative Personnel:				
Michael Andrews	1/31/2024	\$ 34,846	\$ 464	Gen. Manager
Consultants:				
Lloyd Gosselink Rochelle & Townsend P.C.		\$ 63,223		Attorney
Raftelis Financial Consultants, Inc.		\$ 26,661		Rate Consultant
Eric Vordenbaum, CPA, PLLC		\$ 1,250		Accountant
Armstrong, Vaughan, & Associates		\$ 2,500		Auditor
Malone-Wheeler		\$ 268,207		Engineer

*Fees of Office are the amounts actually paid to a director during the District's fiscal year.

COMPLIANCE SECTION



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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Springs Hill Special Utility District

We have audited, 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, the financial statements of Springs Hill Special Utility District as of December 31, 2024 and for the year then ended, and the related notes to the financial statements, which collectively comprise Springs Hill Special Utility District's basic financial statements, and have issued our report thereon dated April 17, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Springs Hill Special Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Springs Hill Special Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of Springs Hill Special 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Springs Hill Special 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Springs Hill Special Utility District in a separate letter dated April 17, 2025.

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.

A handwritten signature in black ink that reads "Armstrong, Vaughan & Associates, P.C." The signature is written in a cursive, flowing style.

Armstrong, Vaughan & Associates, P.C.

April 17, 2025