

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2024
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

R&A Charles E. Reed & Associates, P.C.
Certified Public Accountants & Consultants

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas
ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Drainage District No. 7, Jefferson County, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Drainage District No. 7, Jefferson County, Texas (the District) as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the Drainage District No. 7, Jefferson County, Texas' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Drainage District No. 7, Jefferson County, Texas, as of September 30, 2024, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 Drainage District No. 7, Jefferson County, Texas' 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 Drainage District No. 7, Jefferson County, Texas' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 38 through 41 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Drainage District No. 7, Jefferson County, Texas's basic financial statements. The accompanying Texas Supplementary Information on pages 50 through 60 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards on page 42 is presented for the purpose of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and the *Texas Grant Management Standards*, and are also not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Texas Supplementary Information and the schedule of expenditures of federal awards are 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 June 26, 2025, on our consideration of the Drainage District No. 7, Jefferson County, Texas' 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 Drainage District No. 7, Jefferson County, Texas' 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 Drainage District No. 7, Jefferson County, Texas' internal control over financial reporting and compliance.

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.
Certified Public Accountants and Consultants
Port Arthur, Texas

June 26, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2024

As management of the Drainage District No. 7, Jefferson County, Texas (the "District"), we offer readers of the District's basic financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2024. We encourage readers to consider the information presented here in conjunction with the financial statements and notes thereto, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of the following: 1) Drainage District No. 7 is a single program government and presents fund financial statements and government-wide statements together with adjustments on single statements, and 2) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The statement of net position and governmental fund balance sheet presents information of all of the District's assets, and deferred outflows of resources and liabilities and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities and governmental fund revenues, expenditures, and changes in fund balance presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported when 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 the future fiscal periods (i.e. uncollected property taxes and earned but unused vacation leave).

All of the District's basic services are included in the governmental funds, which focus on how resources flow in and out with the balances remaining at the year-end that are available for spending. The governmental funds statements provide a detailed short-term view to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the government-wide statements, we describe the relationship between governmental activities and governmental funds through the reconciliations and in the notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

The General Fund records all revenues and expenditures, except for Debt Service. The General Fund transfers funds to the Debt Service Fund for debt servicing; paying the principal and interest on the long-term debt. The General Fund also transfers funds to the Capital Projects Fund for the expenses related to the Port Arthur Element of the Sabine Pass to Galveston Bay, Texas Project, for the local portion of expenditures.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2024

FINANCIAL HIGHLIGHTS

- The net position for the District at September 30, 2024 was \$415,524,588.
- The District's net position increased by \$40,766,332 for the year ended September 30, 2024.

FINANCIAL ANALYSIS

The largest portion of the District's total assets (78.07%) reflects its investment in capital assets (e.g., land, buildings, pump stations, ditches and levees, machinery and equipment). The District uses these assets to provide services to its citizens; consequently these assets are not available for future spending.

	<u>2024</u>	<u>2023</u>
<i>Assets</i>		
Current and other assets	\$ 98,987,420	\$ 88,630,292
Capital assets	352,430,772	336,586,104
Total Assets	<u>\$ 451,418,192</u>	<u>\$ 425,216,396</u>
<i>Deferred Outflows of Resources</i>		
Deferred pension and other benefit related outflows	<u>\$ 4,373,606</u>	<u>\$ 4,953,508</u>
<i>Liabilities</i>		
Accounts payable	\$ 1,404,456	\$ 1,011,697
Long-term liabilities	24,879,658	31,229,063
Accrued expenses	237,525	217,711
Other liabilities	8,797,530	20,874,922
Total Liabilities	<u>\$ 35,319,169</u>	<u>\$ 53,333,393</u>
<i>Deferred Inflows of Resources</i>		
Deferred pension and other benefit related inflows	<u>\$ 4,948,041</u>	<u>\$ 2,078,255</u>
<i>Net Position</i>		
Net investment in capital assets	\$ 340,680,772	\$ 323,876,104
Restricted for debt service	56,544	52,713
Restricted for capital projects	2,508,067	922,505
Unrestricted	72,279,205	49,906,934
Total Net Position	<u>\$ 415,524,588</u>	<u>\$ 374,758,256</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2024

The following provides a summary of the District's operation for the year ended September 30, 2024 with comparative totals for the year ended September 30, 2023.

	<u>2024</u>	<u>2023</u>
<i>Revenues</i>		
Current taxes	\$ 44,753,021	\$ 33,127,978
Delinquent taxes	745,669	509,424
Investment earnings	1,880,422	677,385
Federal grants	220,063	177,686
State of Texas grants	13,208,109	123,420,802
Other	460,294	-
Total Revenues	<u>61,267,578</u>	<u>157,913,275</u>
<i>Expenditures/Expenses</i>		
Service operations	14,819,149	23,572,857
Pump stations	1,351,791	1,345,234
Special projects	-	68,629
Ditch and levee maintenance	341,578	437,994
Interest	407,159	444,887
Depreciation	<u>3,581,569</u>	<u>1,729,581</u>
Total Expenditures/Expenses	<u>20,501,246</u>	<u>27,599,182</u>
Excess (Deficiency) of Revenue Over Expenditures	40,766,332	130,314,093
Net position- beginning of year	<u>374,758,256</u>	<u>244,444,163</u>
Net position- end of year	<u>\$ 415,524,588</u>	<u>\$ 374,758,256</u>

ANALYSIS OF INDIVIDUAL FUNDS

Debt Service Fund - Fund balance increased by \$3,831.

Capital Projects - Fund balance increased by \$708,294, due to decrease in expenses related to Sabine Pass to Galveston Bay project and interest income.

ANALYSIS OF CHANGES IN CAPITAL ASSETS AND LONG-TERM DEBT

The District's net investment in capital assets as of September 30, 2024, amounts to \$352,430,772 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, levees and ditches, field equipment, office equipment, furniture and equipment, and construction in progress. The total increase in the District's investment in capital assets for the current fiscal year was 4.71%.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2024

ANALYSIS OF CHANGES IN CAPITAL ASSETS AND LONG-TERM DEBT (Continued)

Major capital asset events during the current fiscal year included the following:

- Accumulated depreciation increased by \$3,234,274 due to the net effect of depreciation expense and asset retirements.
- Purchases of land, equipment and construction of levees, ditches, pump stations and construction in process were \$16,327,589.

**Capital Assets at Year-End
Net of Accumulated Depreciation**

	<u>2024</u>	<u>2023</u>
Land and rights-of-way	\$ 12,475,691	\$ 12,475,691
Buildings and structures	16,058,864	2,153,408
Levees and ditches	12,440,270	13,583,352
Equipment	20,810,981	2,537,414
Construction in process	<u>290,644,966</u>	<u>305,836,239</u>
Total	<u>\$ 352,430,772</u>	<u>\$ 336,586,104</u>

Additional information on the District's capital assets can be found in the notes to the financial statements.

On July 1, 2014, the District issued Maintenance Notes, Series 2014 in the amount of \$19,480,000, the proceeds of which are to finance repairs and improvements to the Port Arthur and Vicinity Hurricane Flood Protection System. At the end of the current fiscal year, the District had outstanding Maintenance Notes Payable of \$11,750,000.

**Outstanding Debt at Year-End
Notes Payable**

	<u>2024</u>	<u>2023</u>
Maintenance Notes Payable, Series 2014	<u>\$ 11,750,000</u>	<u>\$ 12,710,000</u>

Other obligations include the unamortized premium on the notes payable, accrued vacation pay, and other post-employment obligations. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2024

THE BUDGET, ECONOMIC ENVIRONMENT, AND RATES

There were no significant amendments to the original budget.

The main differences between the final budget and actual results for the general fund are briefly summarized as follows:

- Revenues exceeded budgeted revenues by \$2,005,155, mainly due to tax collections in excess of budgeted amounts, grant revenues that were not budgeted and an excess of investment earnings over budget.
- Expenditures were under budget by \$25,450,914, mainly due to expenditures for special projects less than amounts budgeted.
- Transfers exceeded budgeted transfers by \$758,996, mainly due to transfers to the capital projects fund.
- The District had a positive budget variance of \$26,697,073 resulting from revenues exceeding budgeted amounts, expenditures less than budgeted expenditures, and transfers exceeding budgeted amounts.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the District's finances. If you have questions about this report or need any additional information, contact the District's Department of Finance at P.O. Box 3244, Port Arthur, Texas, U.S.A. 77640, or call (409) 985-4369.

BASIC FINANCIAL STATEMENTS

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND
BALANCE SHEET -
ASSETS**

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND
BALANCE SHEET
ASSETS
September 30, 2024**

	<u><i>General Fund</i></u>	<u><i>Debt Service Fund</i></u>
<u><i>Assets</i></u>		
<i>Cash</i>		
Petty Cash	\$ 1,000	\$ -
Checking accounts	36,001,264	56,544
<i>Accounts Receivable</i>		
Delinquent taxes (net of allowance for estimated uncollectibles)	1,155,479	-
Hazard mitigation grant receivable	237,465	-
Due from capital projects fund	712,774	-
<i>Capital Assets</i>		
Land and rights-of-way	-	-
Building and structures	-	-
Levees and ditches	-	-
Equipment	-	-
Construction in process	-	-
Total Assets	<u>\$ 38,107,982</u>	<u>\$ 56,544</u>
<u><i>Deferred Outflows of Resources</i></u>		
<i>Deferred Outflows of Resources</i>		
Deferred pension and other benefit related outflows	-	-
Total Deferred Outflows of Resources	<u>\$ -</u>	<u>\$ -</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 38,107,982</u>	<u>\$ 56,544</u>

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

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND
BALANCE SHEET -
ASSETS**
September 30, 2024

<i>Capital Projects Fund</i>	<i>Total</i>	<i>Adjustments</i>	<i>Statement of Net Position</i>
\$ -	\$ 1,000	\$ -	\$ 1,000
60,822,894	96,880,702	-	96,880,702
-	1,155,479	-	1,155,479
-	237,465	-	237,465
-	712,774	-	712,774
-	-	12,475,691	12,475,691
-	-	16,058,864	16,058,864
-	-	12,440,270	12,440,270
-	-	20,810,981	20,810,981
-	-	290,644,966	290,644,966
<u>\$ 60,822,894</u>	<u>\$ 98,987,420</u>	<u>\$ 352,430,772</u>	<u>\$ 451,418,192</u>
-	-	4,373,606	4,373,606
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,373,606</u>	<u>\$ 4,676,606</u>
<u>\$ 60,822,894</u>	<u>\$ 98,987,420</u>	<u>\$ 356,804,378</u>	<u>\$ 455,791,798</u>

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

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND
BALANCE SHEET -
LIABILITIES AND FUND BALANCE/NET POSITION**

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND
BALANCE SHEET -
LIABILITIES AND FUND BALANCE/NET POSITION**
September 30, 2024

	<u><i>General Fund</i></u>	<u><i>Debt Service Fund</i></u>
<u>Liabilities</u>		
Accounts payable	\$ 677,644	\$ -
Due to general fund	-	-
Due to other governmental entities	-	-
Accrued interest	-	-
Accrued expense	237,525	-
Long-term liabilities		
Due within one year	-	-
Due after one year	-	-
Total Liabilities	<u>915,169</u>	<u>-</u>
 <u>Deferred Inflows of Resources</u>		
<i>Deferred Inflows of Resources</i>		
Deferred revenue - delinquent taxes receivable	1,155,479	-
Deferred pension and other benefit related inflows	-	-
Total Deferred Inflows of Resources	<u>1,155,479</u>	<u>-</u>
 <u>Fund Balances/Net Position</u>		
<i>Fund Balances</i>		
Restricted for debt service	-	56,544
Committed	12,343,750	-
Assigned for capital projects	2,508,067	-
Unassigned	21,185,517	-
Total Fund Balances	<u>36,037,334</u>	<u>56,544</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 38,107,982</u>	<u>\$ 56,544</u>
 <i>Net Position</i>		
Net investment in capital assets		
Restricted for debt service		
Restricted for capital projects		
Unrestricted		
 Total Net Position		

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

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND
BALANCE SHEET -
LIABILITIES AND FUND BALANCE/NET POSITION**
September 30, 2024

<i>Capital Projects Fund</i>	<i>Total</i>	<i>Adjustments</i>	<i>Statement of Net Position</i>
\$ 14,038	\$ 691,682	\$ -	\$ 691,682
712,774	712,774	-	712,774
7,386,375	7,386,375	-	7,386,375
-	-	35,078	35,078
-	237,525	-	237,525
-	-	1,376,077	1,376,077
-	-	24,879,658	24,879,658
<u>8,113,187</u>	<u>9,028,356</u>	<u>26,290,813</u>	<u>35,319,169</u>
-	1,155,479	(1,155,479)	-
-	-	4,948,041	4,948,041
-	<u>1,155,479</u>	<u>3,792,562</u>	<u>4,948,041</u>
-	56,544	(56,544)	-
-	12,343,750	(12,343,750)	-
52,709,707	55,217,774	(55,217,774)	-
-	21,185,517	(21,185,517)	-
<u>52,709,707</u>	<u>88,803,585</u>	<u>(88,803,585)</u>	-
<u>\$ 60,822,894</u>	<u>\$ 98,987,420</u>		
		340,680,772	340,680,772
		56,544	56,544
		2,508,067	2,508,067
		<u>72,279,205</u>	<u>72,279,205</u>
		<u>\$ 415,524,588</u>	<u>\$ 415,524,588</u>

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

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL
FUND REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION**

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL
FUND REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION**
For Year Ended September 30, 2024

	<u>General Fund</u>	<u>Debt Service Fund</u>
Revenues		
Current taxes	\$ 44,753,021	\$ -
Delinquent taxes	434,862	-
Investment earnings	1,039,990	-
Federal grants	220,063	-
State grants	19,029	-
Other	460,294	-
Total Revenues	<u>46,927,259</u>	<u>-</u>
Expenditures/Expenses		
Current:		
Salaries and wages	8,882,693	-
Fringe benefits	5,248,562	-
Materials and supplies	330,022	-
Maintenance and utilities	291,119	-
Miscellaneous services	1,862,134	-
Pump stations	1,351,791	-
Capital Outlay:		
Special projects	3,098,648	-
Capital Outlay	2,218,714	-
Ditch and levee maintenance	341,578	-
Depreciation	-	-
Debt Service:		
Principal	-	960,000
Interest	-	460,038
Bond Fees	-	750
Total Expenditures/Expenses	<u>23,625,261</u>	<u>1,420,788</u>
Other Financing Sources/Uses		
Transfers	<u>(2,217,384)</u>	<u>1,424,619</u>
Total Other Financing Sources (Uses)	<u>(2,217,384)</u>	<u>1,424,619</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	21,084,614	3,831
Change in Net Position	-	-
Fund Balances/Net Position		
Beginning of the year	<u>14,952,720</u>	<u>52,713</u>
End of the year	<u>\$ 36,037,334</u>	<u>\$ 56,544</u>

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

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL
FUND REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION**
For Year Ended September 30, 2024

<i>Capital Projects</i>	<i>Total</i>	<i>Adjustments</i>	<i>Statement of Activities</i>
\$ -	\$ 44,753,021	\$ -	\$ 44,753,021
-	434,862	310,807	745,669
840,432	1,880,422	-	1,880,422
-	220,063	-	220,063
13,189,080	13,208,109	-	13,208,109
-	460,294	-	460,294
<u>14,029,512</u>	<u>60,956,771</u>	<u>310,807</u>	<u>61,267,578</u>
-	8,882,693	53,857	8,936,550
-	5,248,562	(1,855,096)	3,393,466
-	330,022	-	330,022
-	291,119	-	291,119
-	1,862,134	-	1,862,134
-	1,351,791	-	1,351,791
14,113,983	17,212,631	(17,212,631)	-
-	2,218,714	(2,213,606)	5,108
-	341,578	-	341,578
-	-	3,581,569	3,581,569
-	960,000	(960,000)	-
-	460,038	(52,879)	407,159
-	750	-	750
<u>14,113,983</u>	<u>39,160,032</u>	<u>(18,658,786)</u>	<u>20,501,246</u>
<u>792,765</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>792,765</u>	<u>-</u>	<u>-</u>	<u>-</u>
708,294	21,796,739	(21,796,739)	-
-	-	40,766,332	40,776,332
<u>52,001,413</u>	<u>67,006,846</u>	<u>307,751,410</u>	<u>374,758,256</u>
<u>\$ 52,709,707</u>	<u>\$ 88,803,585</u>	<u>\$ 326,721,003</u>	<u>\$ 415,524,588</u>

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

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION**
For Year Ended September 30, 2024

Governmental fund balance as reported on the balance sheet for governmental funds	\$	88,803,585
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When capital assets that are to be used in governmental funds are purchased, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the District.

Cost of capital assets, net of accumulated depreciation		352,430,772
---------------------------------------------------------	--	-------------

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

Note payable		(11,750,000)
Unamortized premium on note payable		(483,779)
Compensated absences		(331,458)
Other post-employment benefits		(7,973,762)
Net pension asset (liability)		(5,716,736)
Accrued interest expense		(35,078)

Deferred property tax revenue, waterway security fee revenue, and placement area usage revenue is recorded as a liability in the governmental funds. However, that revenue should have been recognized when reported using full accrual.

Deferred property tax revenue		1,155,479
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Deferred Outflows/Inflows of resources related to pension and other post-employment benefits are not due and payable in the current period, therefore are not reported in the funds. However they are reported in the Statement of Net Position.

Differences between expected and actual experience		(3,477,374)
Change in assumptions		932,899
Differences between projected and actual earnings		191,598
Contributions subsequent to measurement date		<u>1,778,442</u>

Total net position as reported on the Statement of Net Position for governmental activities	\$	<u><u>415,524,588</u></u>
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The accompanying notes are an integral part of these financial statements.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN NET POSITION TO THE STATEMENT OF ACTIVITIES**
For Year Ended September 30, 2024

Net change in fund balances for total governmental funds	\$ 21,796,739
<p>When capital assets that are to be used in governmental funds are purchased, those costs are reported as expenditures in the governmental funds. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives.</p>	
Current year net capital asset purchase costs, net of disposals	19,078,942
Current year net depreciation expense, net of disposals	(3,234,274)
<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. Also, the governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
Principal payment on notes payable	960,000
Premium amortization	49,619
<p>Interest expense on long-term liabilities of governmental debt is not due and payable in the current period and accordingly is not reported as current period expenditures. However, interest expense on the long-term debt of the governmental activities is accrued in the Statement of Activities.</p>	
Accrued interest on notes payable	3,260
<p>Compensated absences and other post-employee benefits are not due and payable in the current period and, accordingly, are not reported as current period expenditures.</p>	
Compensated absences net of expenditures	(53,857)
Other post-employee benefits net of expenditures	171,240
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>	
Collections on prior year levies	310,807
<p>Governmental Accounting Standards Board Pronouncement 68 and 71 reporting for pension asset/liabilities require adjustments to Net Position that are not reported in the governmental funds.</p>	
Adjustment to pension expense	(94,586)
Contributions subsequent to measurement date	1,778,442
Change in net position of governmental activities	<u>\$ 40,766,332</u>

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

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 1 - FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity -

The District was originally established February 4, 1946, as recorded in Vol. 26, Page 292, of Minutes of Commissioners' Court of Jefferson County. Enlargement and conversion came about in 1962 by consolidation with Drainage District No. 4, the latter being dissolved, with a 50¢ maximum tax rate. In this connection, reference may be made to Article XVI, Sec. 59, of the 57th Legislature, Chapter 34. The District provides the following services as authorized by its charter: construction, reconstruction, extension and improvements of canals, ditches, laterals, drains, levees, seawalls, bridges, culverts, pump stations, buildings, structures, and other facilities needed to protect the lands and properties within the boundaries of the District against flood and/or overflow of tide waters, rainwaters and other waters, and purchase of lands, easements, rights-of-way, buildings, equipment, machinery and other facilities in connection therewith.

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the District are described below.

The District's financial statements include the accounts of all District operations. The criteria for including organizations as component units with the District reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether -

- the organization is legally separate (can sue and be sued in their own name).
- the District holds the corporate powers of the organization.
- the District elects a voting majority of the organization's board.
- the District is able to impose its will on the organization.
- the organization has the potential to impose a financial benefit/burden on the District.
- there is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the District has no component units.

B. Basis of Presentation -

The government-wide financial statements (the statement of net position and governmental fund balance sheet and statement of activities and governmental fund revenues, expenditures and changes in fund balance) report information on all of the activities of the District. They include all funds of the District except for fiduciary funds.

Drainage District No. 7 is a single program government and presents fund financial statements and government-wide statements together with adjustments on single statements.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

**NOTE 1 - FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

B. Basis of Presentation - (Continued)

Governmental funds are those funds through which most governmental functions are typically financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds.

General Fund - The general fund is the main operating fund of the District. This fund is used to account for all financial resources devoted to financing the general services that the District performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund. The fund is charged with all costs of operating the District for which a separate fund has not been established.

Debt Service Fund - The debt service fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the District. The fund balance of the debt service fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Capital Projects Fund - The capital projects fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

C. Measurement Focus/Basis of Accounting -

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources, liabilities and deferred inflows of resources, including capital assets and long-term liabilities are included on the statement of net position and the statement of activities presents increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means they are expected to be collected within the fiscal year or within 60 days after the fiscal year-end.

General property taxes and nontax revenues are recorded when available and investment earnings are recorded when earned. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures and expenditures related to compensated absences are recorded when paid.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

**NOTE 1 - FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

D. 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 as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Capital Assets -

Capital assets used in governmental fund type operations are included in the government-wide financial statements. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, sidewalks, and bridges, are capitalized. Property and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the government-wide financial statements.

All capital assets are valued at historical costs. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair market values at the date of transfer. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Expenditures for maintenance, repairs, renewals and improvements which do not meet the criteria for capitalization of assets are expensed as incurred. Depreciation has been calculated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Life</u>
Building and structures	5 to 40 years
Levees and ditches	5 to 25 years
Equipment	5 to 10 years

F. Retirement Plan and Other Post-Employment Benefits -

Financial reporting information pertaining to the District's participation in the Texas County and District Retirement System (TCDRS) was prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Financial reporting information pertaining to the District's post-retirement healthcare benefits were prepared in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 1 - FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Budgetary Control/Budget Basis of Accounting -

The District follows these procedures in establishing the budgetary data reflected in the financial statements -

1. During midsummer, the District prepares a proposed budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Any revisions of the budget that alter the expenditures of any funds must be approved by the District's Board of Directors.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund.
4. The Budgetary Comparison Schedule - General Fund presents a comparison of budgetary data to actual results. The budget for the General Fund is prepared on the cash basis (budget basis). The differences between the cash basis and the modified accrual basis [generally accepted accounting principles (GAAP) basis] are that revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP) and expenditures are recorded when paid (budget) as opposed to when incurred (GAAP).

Adjustments necessary to convert the results of operations and fund balance at the end of the year on the GAAP basis to the budget basis are as follows -

	General Fund	
	Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	Fund Balance At End of Year
GAAP Basis	\$ 21,084,614	\$ 36,037,334
Increase (decrease) due to revenues -		
Grant receivable	(169,235)	(237,465)
Due from capital projects fund		
Increase (decrease) due to expenditures -		
Accounts payable	439,603	677,644
Encumbrances	20,659	(116,628)
Interfund payable	-	(712,774)
Budget Basis (Non-GAAP)	<u>\$ 21,375,641</u>	<u>\$ 35,648,111</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

NOTE 1 – FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Encumbrances –

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the General Fund.

I. Net Position –

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position invested in capital assets are reduced by accumulated depreciation, and by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restriction imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

J. Compensated Absences –

Vacation accrues on a monthly basis with the ability to carry-over one week to the ensuing year. At September 30, 2024, liabilities included \$331,458 of vacation pay. Sick leave does not vest and, accordingly, employees can be paid sick leave only when sick. Since the District's policies do not allow any sick leave to be carried over to ensuing years, no liability for unused sick leave has been provided.

K. Allowance for Doubtful Accounts –

An allowance has been recorded for property taxes which are estimated to be uncollectible, as required by generally accepted accounting principles.

L. Interest Capitalization –

The District follows the policy of capitalizing interest as a component of the cost of property and equipment constructed for its own use.

M. Interfund Transfers and Balances –

Interfund receivables, payables, and transfers arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. The balances result from the time lag between the dates that reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. Generally, interfund transactions pertain to debt service and capital outlay.

N. Adjustments –

The main components of the adjustments to the statement of net position are as follows:

Capital assets – Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

NOTE 1 – FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Adjustments – (Continued)

Long-term liabilities – Long-term liabilities that are not due and payable in the current period are not included in governmental funds.

Deferred Outflows/Inflows of Resources – Adjustments to net position are required for pension and other post-employment benefits. These adjustments are not included in governmental funds.

Capital assets – Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Long-term liabilities – Change in compensated absences and OPEB obligations does not require (or provide) the use of current financial resources and, therefore, is not reported as expenditure in governmental funds.

Deferred Outflows/Inflows of Resources – Changes in net pension and other post-employment benefit assets/liabilities and adjustments to pension expense and other post-employment benefit expense are not reported as expenditures in governmental funds.

O. Fund Balances – Governmental Funds –

As of these financial statements, the District has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable –

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

Restricted –

Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed –

Amounts that can be used only for specific purposes determined by a formal action taken by the Board of Directors through ordinance or resolution.

The Board adopted a policy to maintain an ending fund balance equal to or greater than 25% of subsequent years budgeted expenditures.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

***NOTE 1 – FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)***

O. Fund Balances – Governmental Funds – (Continued)

Assigned –

Amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned –

Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The details of the fund balances are included in the Governmental Funds Balance Sheet (pages 9 – 10). The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. Assigned funds are reduced to the extent that expenditure authority has been budgeted by the Board of Directors or the assignment has been changed by an authorized party. Decreases to fund balance first reduce Unassigned Fund Balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

P. Date of Management's Review –

Events occurring subsequent to September 30, 2024 were evaluated by management and reviewed through June 26, 2025, the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

The District invests funds that are not immediately needed in a tax collections account. District funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the Government Code in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The collateral must meet certain requirements and be held in safekeeping by the Federal Reserve Bank for the benefit of the District and the market value of the pledged securities must at all times equal or exceed the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The District adheres to the requirements of the act.

A. Deposits –

At year-end, the carrying amount of the District's demand deposits with financial institutions was \$96,880,702 and the bank balance was \$97,086,146. All demand deposits as of the balance sheet date were entirely insured by federal depository coverage and pledged securities.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 2 – CASH AND INVESTMENTS (Continued)

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (“Act”), to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management, and include a list of the types of authorized investments in which the investing entity’s funds may be invested and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purposes financial statements disclosed that in the areas of investment practices, management reports and establishes appropriate policies. The District adheres to the requirements of the Act. Additionally, investment practices of the District are in accordance with local policies.

The District does not have any investments as of September 30, 2024. Most of the District’s funds are held in interest-bearing demand deposit accounts. The Funds are available immediately as needed.

NOTE 3 – PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable by January 31 of the following year, under certain circumstances other payment options may be available. Property values are assessed by the Jefferson County Appraisal District and the taxes are billed and collected by the Jefferson County Tax Collector. The tax rate for 2023 was set at \$.320573 per \$100 of appraised property value for maintenance and operation. The tax rate for 2024 has been set at \$.297632 per \$100 of appraised property value for maintenance and operation. District property tax revenues are recognized when actually received.

Property taxes receivable as of September 30, 2024, were comprised of the following –

<u><i>Year of Levy</i></u>	<u><i>General Fund</i></u>
2023	\$ 991,500
2022	376,570
2021	273,874
2020	162,133
2019	144,596
Before 2019	479,740
Total property taxes receivable	2,428,413
Less: Allowance for uncollectibles	1,272,934
	<u>\$ 1,155,479</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 4 – CAPITAL ASSETS

Activity for capital assets which were capitalized by the District is summarized below –

	<i>Balance</i> <i>Oct. 1, 2023</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance</i> <i>Sept. 30, 2024</i>
Land and rights-of-way	\$ 12,475,691	-	-	12,475,691
Buildings and structures	35,771,553	14,504,212	-	50,275,765
Levees and ditches	106,487,161	-	-	106,487,161
Equipment	5,911,586	20,113,298	(347,295)	25,677,589
Construction in process	305,836,239	18,656,328	(33,847,601)	290,644,966
	<u>\$ 466,482,230</u>	<u>53,273,838</u>	<u>(34,194,896)</u>	<u>485,561,172</u>
Accumulated depreciation	<u>\$ 129,896,126</u>	<u>3,581,569</u>	<u>(347,295)</u>	<u>133,130,400</u>

The current year depreciation is \$3,581,569.

NOTE 5 – RETIREMENT PLAN

Plan Description –

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 700 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.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCERS (TCERS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 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 the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCERS 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 TCERS Act.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 5 – RETIREMENT PLAN

Funding Policy –

The employer has elected the annually determined contribution rate (variable-rate) 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 27.61% for the months of the accounting year in 2023, and 27.21% for the months of the accounting year in 2024. The deposit rate payable by the employee members for calendar year 2024 is the rate of 7% 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.

Contributions –

The required contribution was determined as part of the December 31, 2023 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2023 included (a) percent investment rate of return (net of administrative expenses), and (b) projected salary increases of percent. Both (a) and (b) included an inflation component of 2.50 percent.

For the employer's accounting year ended September 30, 2024, the annual pension contribution for the TCDRS plan by its employees was \$616,430 and the employer cost was \$2,405,027. Contributions payable at September 30, 2024 for the employer portion of the pension expense was \$188,928 and the employee portion was \$48,603.

Net Pension Liability/(Asset) –

	<i>December 31, 2022</i>	<i>December 31, 2023</i>
Total pension liability	\$ 63,487,994	\$ 65,614,253
Fiduciary net position	<u>52,138,151</u>	<u>57,640,491</u>
Net pension liability/(asset)	<u>\$ 11,349,843</u>	<u>\$ 7,973,762</u>
 Fiduciary net position as a % of total pension liability	 82.12%	 87.85%
Pensionable covered payroll ⁽¹⁾	\$ 7,739,974	\$ 8,238,635
Net pension liability as a % of covered payroll	146.64%	96.78%

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

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 5 – RETIREMENT PLAN (Continued)

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below:

Discount Rate –

Discount rate ⁽²⁾	7.60%	7.60%
Long-term expected rate of return, net of investment expense ⁽²⁾	7.60%	7.60%
Municipal bond rate ⁽³⁾	N/A	N/A

⁽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 as 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.

Actuarial Methods and Assumptions Used for GASB Calculations –

All actuarial methods and assumptions used for this GASB analysis were the same as those used in the December 31, 2023 funding valuation, except as noted below and throughout this report. Please see the employer summary actuarial valuation report as of December 31, 2023 for further details.

Following are the key assumptions and methods used in this GASB analysis –

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry age (level percent of pay) ⁽¹⁾
Amortization Method	
Recognition of economic/demographic gains or losses	Straight-line amortization over expected working life
Recognition of assumptions changes or inputs	Straight-line amortization over expected working life
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None

⁽¹⁾ Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that the replacement life entry age cost method is used for the funding actuarial valuation.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 5 – RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions Used for GASB Calculations – (Continued)

Key assumptions and methods used in this GASB analysis – (Continued)

Inflation	2.50%
Salary Increases	4.70% average
Investment Rate of Return	7.50% (Gross of administrative expenses)
Cost-of-Living Adjustments	Cost-of-Living Adjustments for Jefferson County Drainage District No 7 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	60 and above
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	
Depositing members	135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% of Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Service retirees, beneficiaries and non-depositing members	135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% of Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Disabled retirees	160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

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 2024 information for a 10 year time horizon.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 5 – RETIREMENT PLAN (Continued)

Long-term Expected Rate of Return – (Continued)

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. Milliman relies on the expertise of Cliffwater in this assessment.

<i>Asset Class</i>	<i>Benchmark</i>	<i>Target Allocation⁽¹⁾</i>	<i>Geometric Real Rate of Return (Expected minus Inflationary)⁽²⁾</i>
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.75%
Global Equities	MSCI World (net) Index	2.50%	4.75%
International Equities- Developed Markets	MSCI World Ex USA (net) Index	5.00%	4.75%
International Equities- Emerging Markets	MSCI Emerging Markets (net) Index	6.00%	4.75%
Investment-Grade Bonds	Bloomberg U.S. Aggregate Bond Index	3.00%	2.35%
Strategic Credit	FTSE High-Yield Cash-Pay Index	9.00%	3.65%
Direct Lending	Morningstar LSTA US Leveraged Loan TR USD Index	16.00%	7.25%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	6.90%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S & P Global REIT (net) Index	2.00%	4.10%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.20%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	5.70%
	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	7.75%
Private Equity			
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	3.25%
Cash Equivalents	90-Day U.S. Treasury	2.00%	0.60%

⁽¹⁾ Target asset allocation adopted at the March 2024 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.20%, per Cliffwater's 2024 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.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

NOTE 5 – RETIREMENT PLAN (Continued)**Changes in Net Pension Liability/(Asset) –**

	Total Pension Liability (a)	Increases/ Decreases Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a) – (b)
Balances as of December 31, 2022	\$ 63,487,994	52,138,151	11,349,843
Changes for the year:			
Service cost	1,189,991	-	1,189,991
Interest on total pension liability ⁽¹⁾	4,802,144	-	4,802,144
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	(826,455)		(826,455)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(159,189)	(159,189)	-
Benefit payments	(2,880,232)	(2,880,232)	-
Administrative expenses		(30,097)	30,097
Member contributions		576,704	(576,704)
Net investment income		5,727,998	(5,727,998)
Employer contributions		2,256,562	(2,256,562)
Other ⁽³⁾		10,594	(10,594)
Balances as of December 31, 2023	<u>\$ 65,614,253</u>	<u>57,640,491</u>	<u>7,973,762</u>

⁽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 district, calculated using the discount rate of 7.60%, as well as what the Jefferson County Drainage District No. 7 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	\$ 73,615,067	65,614,253	58,808,663
Fiduciary net position	<u>57,640,491</u>	<u>57,640,491</u>	<u>57,640,491</u>
Net pension liability/(asset)	<u>\$ 15,974,576</u>	<u>7,973,762</u>	<u>1,168,172</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 5 – RETIREMENT PLAN (Continued)

Pension Expense/Income –

	<i>January 1, 2023 to December 31, 2023</i>
Service cost	\$ 1,189,991
Interest on total pension liability ⁽¹⁾	4,802,144
Effect of plan changes	-
Administrative expenses	30,097
Member contributions	(576,704)
Expected investment return net of investment expenses	(3,954,082)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(191,912)
Recognition of assumption changes or inputs	455,731
Recognition of investment gains or losses	(1,032,215)
Other ⁽²⁾	(10,593)
Pension expense/income	<u>\$ 712,457</u>

⁽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.

Deferred Outflows of Resources –

As of December 31, 2023, the deferred inflows and outflows of resources are as follows:

	<i>Deferred Inflows of Resources</i>	<i>Deferred Outflows of Resources</i>
Differences between expected and actual experience	\$ 1,053,656	\$ 275,449
Changes of assumptions	-	911,901
Net difference between projected and actual earnings	-	191,598
Contributions made subsequent to measurement date	-	1,778,442
	<u>\$ 1,053,656</u>	<u>\$ 3,157,390</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 5 – RETIREMENT PLAN (Continued)

Deferred Outflows of Resources – (Continued)

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

Year ended December 31:

2024	\$ 1,659,731
2025	91,875
2026	933,949
2027	(444,081)
2028	(137,740)
Thereafter ⁽¹⁾	-

⁽¹⁾ Total remaining balance to be recognized in future years, if any.

Note that additional future deferred inflows and outflows of resources may impact these numbers.

	<u>2023</u>
Inactive employees or beneficiaries currently receiving benefit payments	63
Inactive employees entitled to but not yet receiving benefit payments	9
Active employees	86

NOTE 6 – LONG-TERM DEBT

The following is a summary of notes payable transactions of the District for the year ended September 30, 2024 –

	<u>Beginning Balance</u>	<u>Debt Issued</u>	<u>Principal (Payments)</u>	<u>Ending Balance</u>
Maintenance Notes Payable				
Dated 7/1/14, due 9/1/34; interest varies to 5.0%	\$ 12,710,000	\$ -	\$ (960,000)	\$ 11,750,000
	<u>12,710,000</u>	<u>-</u>	<u>(960,000)</u>	<u>11,750,000</u>
		\$ -	\$ (960,000)	
Less: Current maturities	<u>(960,000)</u>			<u>(995,000)</u>
Long-term Portion	<u>\$ 11,750,000</u>			<u>\$ 10,755,000</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 6 – LONG-TERM DEBT (Continued)

Notes payable were comprised of the following:

On July 1, 2014, pursuant to the applicable provisions of the Texas Constitution and the general laws of the State of Texas, including particularly Section 56.242(d), Texas Water Code, as amended, the Drainage District No. 7, Jefferson County, Texas (the District), issued Maintenance Notes, Series 2014 in the amount of \$19,480,000, the proceeds of which are to finance repairs and improvements to the Port Arthur and Vicinity Hurricane Flood Protection System. The District is to pay a sum equal to all principal, interest, paying agent/registrar fees and expenses on the maintenance notes. Installments from \$995,000 to \$1,390,000 through September 2034 with interest rates ranging from 3.00% to 4.00% based on the established maturity schedule.

Debt service requirements to maturity at September 30, 2024, are as follows –

<i><u>Year Ending September 30,</u></i>	<i><u>Principal</u></i>	<i><u>Interest</u></i>	<i><u>Total</u></i>
2025	995,000	420,938	1,415,938
2026	1,030,000	385,588	1,415,588
2027	1,065,000	354,163	1,419,163
2028	1,095,000	320,394	1,415,394
2029	1,140,000	279,800	1,419,800
2030 - 2034	6,425,000	663,100	7,088,100
	<u>\$ 11,750,000</u>	<u>\$ 2,423,983</u>	<u>\$ 14,173,983</u>

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2024 –

	<i><u>Beginning Balance</u></i>	<i><u>Issues or Additions</u></i>	<i><u>Payments or Expenditures</u></i>	<i><u>Ending Balance</u></i>	<i><u>Due Within One Year</u></i>
Notes payable	\$ 12,710,000	\$ -	\$ (960,000)	\$ 11,750,000	\$ 995,000
Unamortized premium on notes payable	533,398	-	(49,619)	483,779	49,619
Compensated absences	277,601	430,199	(376,342)	331,458	331,458
OPEB obligation	7,645,440	990,462	(2,919,166)	5,716,736	-
Net pension liability (asset)	11,349,843	6,022,232	(9,398,313)	7,973,762	-
	<u>\$ 32,516,282</u>	<u>\$ 7,442,893</u>	<u>\$ (13,703,440)</u>	<u>\$ 26,255,735</u>	<u>\$ 1,376,077</u>

Payments on the Notes payable are made by the debt service fund. Compensated absences and other post-employment benefits (OPEB) are liquidated by the general fund.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 7 – CONCENTRATION OF RISK

A major portion of the District's revenues is dependent upon property taxes from one petrochemical company. For the year ended September 30, 2024, these taxes represented approximately 14.52% of total revenues.

NOTE 8 – COMMITMENTS

The District has the following commitment at September 30, 2024 –

New Administration Building Construction Project	20,000
Foley & Ninth Avenue Pump Station	24,918
El Vista, Star Lake, and Rodair Pump Station	794,400
Future Rodair Gully Detention Pond Pump Station	200,534
Port Acres Wastewater Treatment Plant	1,468,215
	<u>\$ 2,508,067</u>

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS

The District provides certain post-retirement health care benefits to eligible retired employees and their spouses. The plan is a single-employer defined benefit plan and is administered by the District.

To be eligible for this benefit the sum of the retiree's age plus years of service must equal 75 or more. All coverage terminates at age 65. Spouse and family are not eligible to participate.

At September 30, 2024, the following employees were covered by the benefit terms:

	<u>2023</u>
Inactive employees or beneficiaries currently receiving benefit payments	10
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	78

In addition, as noted in Note 5 – Retirement Plan, the District provides death benefits through the TCDRS. These benefits represent term life insurance policies which are considered other post-employment benefits (OPEB). The balances and activity of the TCDRS benefits are combined with the balances and activity of the health care benefits administered by the District within this footnote. Total OPEB liability of the TCDRS term life insurance plan is \$213,147.

Funding Policy –

The retiree medical plan is operated on a Pay-As-You-Go basis. There are no assets that have been segregated and restricted to provide for retiree medical benefits. For the year ended September 30, 2024, the cost of retiree health benefits, recorded on a pay-as-you-go basis was \$149,988.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions –

Actuarial valuations for an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates are made about the future. Although the valuation results are based on values the District's actuarial consultant believes are reasonable assumptions, the valuation result is only an estimate of what future costs may actually be and reflect a long-term perspective. Deviations in any of several factors, such as future interest rate discounts, medical cost inflation, Medicare coverage risk, and changes in marital status, could result in actual costs being greater or less than estimated.

The District's total OPEB liability for health care benefits was measured as of September 30, 2024, and was determined by an actuarial valuation as of October 1, 2023. The valuation includes all active employees and current retirees and their spouses who are currently receiving benefits under the retiree medical plan.

The total OPEB liability in the September 30, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry Age Normal
Investment Rate of Return	20-year return on AA municipal bonds 3.81%
Mortality	
Active Members	135% of Pub-2010 Employee Tables for males and 120% of Pub-2010 Employee Tables for females, both projected with 100% of the ultimate rates of mortality improvement scale MP-2021.
Healthy Retirees	135% of Pub-2010 Healthy Retiree Tables for males and 120% of Pub-2010 Healthy Retiree Tables for females, both projected with 100% of the ultimate rates of mortality improvement scale MP-2021.
Disabled Retirees	160% of Pub-2010 Disabled Retiree Tables for males and 125% of Pub-2010 Disabled Retiree Tables for females, both projected with 100% of the ultimate rates of mortality improvement scale MP-2021.
Disability Rate	0.003% to 0.162% varying upon age.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions – (Continued)

Annual Retirement Rates	Age 40 to 49 - 5.25% - 8.75% Age 50 to 51 - 5.63% - 9.38% Age 52 to 53 - 6.00% - 10.00% Age 54 to 56 - 6.75% - 11.25% Age 57 to 59 - 7.50% - 12.50% Age 60 to 61 - 9.00% - 15.00% Age 62 - 13.50% - 22.50% Age 63 to 64 - 11.25% - 18.75% Age 65 & over – 100% (Rates vary upon years of service)		
Salary Increases	0.40% to 5.25%, not including wage inflation of 3%		
Health Cost Increases	2025 – 7.20% 2032 – 6.00% 2039 – 4.50% 2026 – 7.10% 2033 – 5.80% 2040 & later – 4.25% 2027 – 7.00% 2034 – 5.60% 2028 – 6.80% 2035 – 5.40% 2029 – 6.60% 2036 – 5.20% 2030 – 6.40% 2037 – 5.00% 2031 – 6.20% 2038 – 4.75%		
Rate of Inflation	2.50% annually		

Changes in Total OPEB Liability –

	<u>Total OPEB Liability</u>
Balances as of September 30, 2023	\$ 7,645,440
Changes for the year:	
Service cost	337,382
Interest	333,510
Changes of benefit terms	-
Differences between expected and actual experience	(2,764,235)
Changes of assumptions or other inputs	319,570
Benefit payments	(154,931)
Administrative expense	-
Net Changes	<u>(1,928,704)</u>
Balances as of September 30, 2024	\$ <u>5,716,736</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Sensitivity of the total OPEB liability to changes in the discount rate –

The following presents the total OPEB liability of the employer, calculated using the discount rate of 3.81%, as well as what the Drainage District No. 7, Jefferson County, Texas' total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.81%) or 1 percentage point higher (4.81%) than the current rate.

	<i>1% Decrease</i>	<i>Current Discount Rate</i>	<i>1% Increase</i>
	2.81%	3.81%	4.81%
Total OPEB liability	\$ 6,239,874	\$ 5,716,736	\$ 5,235,752

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates –

The following presents the total OPEB liability of the employer, calculated using the healthcare cost trend rate of 7.20%, as well as what the Drainage District No. 7, Jefferson County, Texas' total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.20%) than the current rate.

	<i>1% Decrease</i>	<i>Current Discount Rate</i>	<i>1% Increase</i>
	6.20%	7.20%	8.20%
Total OPEB liability	\$ 5,075,212	\$ 5,716,736	\$ 6,483,078

OPEB Expense

	<i>October 1, 2023 to September 30, 2024</i>
Service cost	\$ 337,382
Interest	333,510
Expected return on investments	-
Recognition of current year inflow due to liabilities	(208,151)
Amortization of prior year inflow due to liabilities	(175,213)
Recognition of difference between expected and actual experience	(2,560)
Recognition of changes in assumptions or other inputs	2,660
OPEB expense	<u>\$ 287,628</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Deferred Inflows and Outflows of Resources –

As of September 30, 2024, the deferred inflows and outflows of resources are as follows:

	<u><i>Deferred Inflows of Resources</i></u>	<u><i>Deferred Outflows of Resources</i></u>
Differences between expected and actual experience	\$ 2,878,526	179,359
Changes of assumptions	1,015,859	1,036,857
	<u>\$ 3,894,385</u>	<u>1,216,216</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:

2025	\$ (383,917)
2026	(381,909)
2027	(377,821)
2028	(367,023)
2029	(365,967)
Thereafter	(801,352)

NOTE 10 – LITIGATION

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 operations of the District.

The District is in an administrative proceeding involving Star Lake Canal and Jefferson Canal instituted by the Environmental Protection Agency against the District and other pertaining to possible environmental clean-up costs on property that belongs to the third parties also involved in the same proceeding. The District has been identified as a potentially responsible party ("PRP") by the EPA and several meetings and telephone conferences have been held between the PRPs. At this time we are still in the investigation and negotiation stage, and have reached an agreement with other PRPs to arrange for a joint effort to share expenses. At Present the District is unable to determine the likelihood or extent of liability and no liability has been accrued in these financial statements.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

NOTE 11 – PORT ARTHUR ELEMENT OF THE SABINE PASS TO GALVESTON BAY, TX PROJECT

Drainage District No. 7 entered into a Project Partnership Agreement (PPA) on November 29, 2019 with the United States Army Corps of Engineers Galveston District for the Port Arthur and Vicinity Separable Element of the Sabine Pass to Galveston Bay, Texas Coastal Storm Risk Management Project (CSRM).

Federal Share – 65%	\$ 560,950,000
Non-Federal Share – 35%	302,050,000
Total Cost	<u>\$ 863,000,000</u>

Drainage District No. 7 entered into a Local Cooperation Agreement (LCA) with Texas General Land Office (GLO) on October 15, 2019. The agreement is for funding of the Coastal Storm Risk Management Project. GLO will reimburse and advance fund the District for allowable project costs through the end of calendar year 2024. Currently, total reimbursements and advances for Jefferson County DD7 may not exceed \$162,965,068.

Drainage District No. 7 entered into an Interlocal Agreement with Gulf Coast Protection District (GCPD) on February 21, 2023. The agreement is to be the intermediary between GLO and Jefferson County DD7, and is referred to as Senate Bill 1 (SB1). GCPD will submit funding requests to the GLO on behalf of Jefferson County DD7. Once funds are received, GCPD remits the funds to Jefferson County DD7. Currently, total reimbursements and advances may not exceed \$122,585,850.

Drainage District No. 7 amended its interlocal agreement with GCPD on November 13, 2024, subsequent to the end of the fiscal year. The amendment is to continue as the intermediary between GLO and Jefferson County DD7 for the next round of state funding that became available for distribution on September 17, 2024. This round of funding is referred to as House Bill 1 (HB1). Similar to SB1, GCPD will submit funding requests to the GLO on behalf of Jefferson County DD7. Once funds are received, GCPD remits the funds to Jefferson County DD7. Currently, total reimbursements and advances may not exceed \$290,900,000.

As of September 30, 2024, expenses in the amount of \$222,476,826 from funds received from the GLO and GCPD have been spent on the project. Total funds received from GLO and GCPD for the project are \$229,863,201. At the completion of the project, Drainage District No. 7 shall operate, maintain, repair, rehabilitate, and replace the asset, or such functional portion thereof at no cost to the Government.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 12 – TAX ABATEMENT

Over the years, Drainage District No. 7 has agreed to multiple tax abatements to provide incentive to owners of real property who propose a project to develop, redevelop, or improve eligible facilities. The incentives will consist of a limited special exemption from certain taxes provided the owner agrees to accept and abide by the policy and that the real property is located in a lawfully created reinvestment or enterprise zone. Most of the tax abatement agreements include provisions for default and recapture of abated tax. As a result of tax abatement agreements, the total value lost due to abatement for the year ended September 30, 2024 was \$1,645,292,370 with a reduction in tax revenues of \$5,274,363.

NOTE 13 – LEASES

Due to the short term nature of the contracts in effect, the leases are classified as short term leases and as such, no payable or deferred outflow of resources has been recognized.

NOTE 14 – SUBSEQUENT EVENT

Events that occur after the statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statements of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the District through June 26, 2025 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND**

For Year Ended September 30, 2024

	<i>Actual</i>	<i>Original Budget</i>	<i>Final Budget</i>	<i>Variance Positive (Negative)</i>
Revenues				
Current taxes	\$ 44,753,021	\$ 44,422,868	\$ 44,422,868	\$ 330,153
Delinquent taxes	434,862	150,000	150,000	284,862
Investment earnings	1,039,989	150,000	150,000	889,989
FEMA reimbursement	69,857	-	-	69,857
Miscellaneous	460,294	30,000	30,000	430,294
Total Revenues	<u>46,758,023</u>	<u>44,752,868</u>	<u>44,752,868</u>	<u>2,005,155</u>
Expenditures/Expenses				
Salaries and wages	8,882,693	9,282,000	9,282,000	399,307
Fringe benefits	5,266,307	6,706,000	6,706,000	1,439,693
Materials and supplies	330,687	553,500	553,500	222,813
Maintenance and utilities	283,515	386,000	386,000	102,485
Miscellaneous services	1,816,262	2,283,000	2,283,000	466,738
Pump stations	1,418,660	2,000,000	2,000,000	581,340
Special projects	4,117,528	26,000,000	26,000,000	21,882,472
Ditch and levee maintenance	314,217	600,000	600,000	285,783
Capital outlay	774,717	845,000	845,000	70,283
Total Expenditures	<u>23,204,586</u>	<u>48,655,500</u>	<u>48,655,500</u>	<u>25,450,914</u>
Other Sources (Uses)				
Transfer to capital projects fund	753,177	-	-	(753,177)
Transfer to debt service fund	1,424,619	1,418,800	1,418,800	(5,819)
Total Other Sources (Uses)	<u>2,177,796</u>	<u>1,418,800</u>	<u>1,418,800</u>	<u>(758,996)</u>
Excess (Deficiency) of Revenues over Expenditures and Other Sources (Uses)	\$ 21,375,641	<u>(5,321,432)</u>	<u>(5,321,432)</u>	<u>26,697,073</u>
Fund Balance/Net Position				
Beginning of the year	<u>14,272,470</u>			
End of the year	<u>\$ 35,648,111</u>			

SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas.

SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Year Ending December 31

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<u>Total Pension Liability</u>			
Service cost	\$ 1,189,991	\$ 912,601	\$ 868,948
Interest on total pension liability	4,802,144	3,957,819	3,840,505
Effect of plan changes	-	8,487,019	-
Effect of assumption changes or inputs	-	-	2,635
Effect of economic/demographic (gains) or losses	(826,455)	290,672	(705,058)
Benefit payments/refunds of contributions	<u>(3,039,421)</u>	<u>(2,600,548)</u>	<u>(2,416,968)</u>
Net change in total pension liability	2,126,259	11,047,563	1,590,062
Total pension liability, beginning	<u>63,487,994</u>	<u>52,440,431</u>	<u>50,850,369</u>
Total pension liability, ending (a)	<u>\$ 65,614,253</u>	<u>\$ 63,487,994</u>	<u>\$ 52,440,431</u>
<u>Fiduciary Net Position</u>			
Employer contributions	\$ 2,256,562	\$ 1,139,324	\$ 1,115,991
Member contributions	576,704	541,798	514,621
Investment income net of investment expenses	5,727,998	(3,227,740)	10,231,619
Benefit payments/refunds of contributions	(3,039,421)	(2,600,548)	(2,416,968)
Administrative expenses	(30,097)	(30,554)	(30,512)
Other	<u>10,594</u>	<u>(82,317)</u>	<u>(9,337)</u>
Net change in fiduciary net position	<u>5,502,340</u>	<u>(4,260,037)</u>	<u>9,405,414</u>
Fiduciary net position, beginning	<u>52,138,151</u>	<u>56,398,188</u>	<u>46,992,774</u>
Fiduciary net position, ending (b)	<u>57,640,491</u>	<u>52,138,151</u>	<u>56,398,188</u>
Net pension liability/(asset), ending = (a) - (b)	<u>\$ 7,973,762</u>	<u>\$ 11,349,843</u>	<u>\$ (3,957,757)</u>
Fiduciary net position as a % of a total pension liability	87.85%	82.12%	107.55%
Pensionable covered payroll	\$ 8,238,635	\$ 7,739,974	\$ 7,351,722
Net pension liability as a % of covered payroll	96.78%	146.64%	(53.83%)

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Year Ending December 31

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 712,971	\$ 683,840	\$ 709,860	\$ 679,961	\$ 739,128	\$ 696,604	\$ 670,795
3,670,222	3,506,447	3,342,650	3,151,025	2,984,927	2,806,393	2,655,025
-	-	-	-	-	(76,200)	-
2,731,751	-	-	(86,650)	-	222,251	-
244,999	(74,485)	(81,153)	269,250	(513,534)	(23,180)	(180,880)
(2,173,648)	(2,074,337)	(1,777,737)	(1,581,571)	(1,377,436)	(1,364,783)	(1,356,309)
5,186,295	2,041,465	2,193,620	2,432,015	1,833,085	2,261,085	1,788,631
45,664,074	43,622,609	41,428,989	38,996,974	37,163,889	34,902,804	33,114,173
<u>\$ 50,850,369</u>	<u>\$ 45,664,074</u>	<u>\$ 43,622,609</u>	<u>\$ 41,428,989</u>	<u>\$ 38,996,974</u>	<u>\$ 37,163,889</u>	<u>\$ 34,902,804</u>
\$ 1,048,348	\$ 878,560	\$ 886,780	\$ 880,449	\$ 904,499	\$ 904,537	\$ 871,231
473,142	439,280	424,587	445,958	422,381	418,491	397,563
4,464,590	6,212,623	(733,004)	5,008,673	2,393,691	183,973	2,091,949
(2,173,648)	(2,074,337)	(1,777,737)	(1,581,571)	(1,377,436)	(1,364,783)	(1,356,309)
(34,385)	(32,943)	(30,382)	(25,980)	(25,994)	(23,219)	(24,113)
(15,014)	(19,878)	(9,970)	(3,665)	(300,803)	(7,632)	(150,587)
3,763,033	5,403,305	(1,239,726)	4,723,864	2,016,338	111,367	1,829,734
43,229,741	37,826,436	39,066,162	34,342,298	32,325,960	32,214,593	30,384,859
46,992,774	43,229,741	37,826,436	39,066,162	34,342,298	32,325,960	32,214,593
<u>\$ 3,857,595</u>	<u>\$ 2,434,333</u>	<u>\$ 5,796,173</u>	<u>\$ 2,362,827</u>	<u>\$ 4,654,676</u>	<u>\$ 4,837,929</u>	<u>\$ 2,688,211</u>
92.41%	94.60%	86.71%	94.30%	88.06%	86.98%	92.30%
\$ 6,759,174	\$ 6,275,430	\$ 6,065,527	\$ 6,370,830	\$ 6,034,016	\$ 5,978,437	\$ 5,679,470
57.07%	38.79%	95.56%	37.08%	77.14%	80.92%	47.33%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ending December 31

<i>Year Ending December 31</i>	<i>Actuarially Determined Contribution</i>	<i>Actual Employer Contribution</i>	<i>Contribution Deficiency (Excess)</i>	<i>Pensionable Covered Payroll ⁽¹⁾</i>	<i>Actual Contribution as a % of Covered Payroll</i>
2014	871,231	871,231	-	5,679,470	15.3%
2015	904,537	904,537	-	5,978,437	15.1%
2016	904,499	904,499	-	6,034,016	15.0%
2017	880,449	880,449	-	6,370,830	13.8%
2018	886,780	886,780	-	6,065,527	14.6%
2019	878,560	878,560	-	6,275,430	14.0%
2020	1,048,348	1,048,348	-	6,759,174	15.5%
2021	1,115,991	1,115,991	-	7,351,722	15.2%
2022	1,139,324	1,139,324	-	7,739,974	14.7%
2023	2,256,562	2,256,562	-	8,238,635	27.4%

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

SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS

Year Ending September 30

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<i>Total Pension Liability</i>			
Service cost	\$ 337,382	\$ 488,690	\$ 488,283
Interest	333,510	178,807	178,982
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(2,764,235)	275,484	261,031
Changes of assumptions or other inputs	319,570	(58,364)	(1,339,447)
Benefit payments	<u>(154,931)</u>	<u>(347,257)</u>	<u>(404,260)</u>
Net change in total OPEB liability	(1,928,704)	537,360	(815,411)
 Total OPEB liability, beginning	 <u>7,645,440</u>	 <u>7,108,080</u>	 <u>7,923,491</u>
Total OPEB liability, ending (a)	<u>\$ 5,716,736</u>	<u>\$ 7,645,440</u>	<u>\$ 7,108,080</u>
 Covered payroll	 \$ 8,794,152	 \$ 7,739,974	 \$ 7,729,980
 Total OPEB liability as a % of covered payroll	 65.00%	 98.78%	 91.95%

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS

Year Ending September 30

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 252,346	\$ 188,019	\$ 207,127	\$ 194,585	\$ N/A	\$ N/A	\$ N/A
179,556	259,420	258,302	256,749	N/A	N/A	N/A
-	-	-	-	N/A	N/A	N/A
2,661	(1,005,658)	4,103	10,481	N/A	N/A	N/A
24,541	859,541	(18,163)	8,813	N/A	N/A	N/A
(420,246)	(385,999)	(403,588)	(389,873)	N/A	N/A	N/A
28,858	(84,677)	47,781	59,793	N/A	N/A	N/A
7,894,633	7,979,310	7,931,529	7,871,736	N/A	N/A	N/A
<u>\$ 7,923,491</u>	<u>\$ 7,894,633</u>	<u>\$ 7,979,310</u>	<u>\$ 7,931,529</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
\$ 6,759,174	\$ 7,308,954	\$ 6,282,441	\$ 5,966,999	\$ N/A	\$ N/A	\$ N/A
117.23%	108.01%	127.01%	132.92	N/A	N/A	N/A

No assets are accumulated in a trust that meets the criteria in GASB No. 75, paragraph 4, to pay related benefits.

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 75, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

FEDERAL FINANCIAL ASSISTANCE

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For Year Ended September 30, 2024

<u><i>Pass-through Grantor/ Program Title</i></u>	<u><i>Assistance Listing Number</i></u>	<u><i>Contract Number</i></u>	<u><i>Federal and State Expenditures</i></u>
<i>FEDERAL AWARDS</i>			
<i>U.S. Department of Homeland Security/ State of Texas Department of Emergency Management</i>			
Hazard mitigation	97.039	DR-4332-168	\$ 68,349
Hazard mitigation	97.039	DR-4332-169	7,769
Hazard mitigation	97.039	DR-4466-003	<u>143,945</u>
Reconciliation to federal grant revenue			
Prior year expenditures			<u>-</u>
Total Federal Awards			<u>\$ 220,063</u>
<i>STATE OF TEXAS AWARDS</i>			
<i>Texas General Land Office</i>			\$
State Senate Bill 500		20-127-000-C102	12,958,585
SB1 Senate Bill 1		22-074-000-D188	1,155,398
			<u>14,113,983</u>
<i>Texas Division of Emergency Management</i>			
State Senate Bill Hazard Mitigation			\$ 19,029
Reconciliation to state grant revenue			
Prior year expenditures			<u>(924,903)</u>
Total State of Texas Awards			<u>\$ 13,208,109</u>
Total Awards			<u>\$ 13,428,172</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended September 30, 2024

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Drainage District No. 7, Jefferson County, Texas under programs of the federal government for the year ended September 30, 2024, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Drainage District No. 7, Jefferson County, Texas, it is not intended to and does not present the financial position, changes in net position, or cash flows of Drainage District No. 7, Jefferson County, Texas.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Drainage District No. 7, Jefferson County, Texas, has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C – CONTINGENCIES

These federal and state programs are subject to financial and compliance audits by grantor agencies, which, if instances of material noncompliance are found, may result in disallowed expenditures, and affect the District's continued participation in specific programs. The amount of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.



**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
Drainage District No. 7, Jefferson County, 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 and each major fund of Drainage District No. 7, Jefferson County, Texas, (the District) as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise Drainage District No. 7, Jefferson County, Texas' basic financial statements, and have issued our report thereon dated June 26, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Drainage District No. 7, Jefferson County, Texas' 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

Charles E. Reed & Associates, P.C.

Charles E. Reed and Associates, P.C.
Certified Public Accountants and Consultants
Port Arthur, Texas

June 26 2025



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
AND TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

To the Board of Directors
Drainage District No. 7, Jefferson County, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal and State Program

We have audited the Drainage District No. 7, Jefferson County, Texas' (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal and state programs for the year ended September 30, 2024. The District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Drainage District No. 7, Jefferson County, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *Texas Uniform Grant Management Standards*, where applicable. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal and state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, Texas Uniform Grant Management Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Charles E. Reed & Associates, P.C.

Charles E. Reed and Associates, P.C.
Certified Public Accountants and Consultants
Port Arthur, Texas

June 26 2025

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For Year Ended September 30, 2024

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Drainage District No. 7, Jefferson County, Texas.
2. No reportable conditions were reported during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Drainage District No. 7, Jefferson County, Texas were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs were reported during the audit.
5. The auditor's report on compliance for the major federal award programs of Drainage District No. 7, Jefferson County, Texas expresses an unmodified opinion on its major programs.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this Schedule.
7. The program tested as major programs included:

<i><u>Pass-through Grantor/Program Title</u></i>	<i><u>Assistance Listing Number</u></i>	<i><u>Pass-through Identifying Number</u></i>	<i><u>Federal Expenditures</u></i>	<i><u>State Expenditures</u></i>
U.S. Department of Homeland Security/State of Texas Department of Emergency Management				
Hazard mitigation	97.039		\$ 220,063	\$ -
Texas General Land Office		20-127-000-C102	-	13,189,080
			<u>\$ 220,063</u>	<u>\$ 13,189,080</u>

8. The threshold for distinguishing Types A and B programs was \$750,000 for federal expenditures and \$750,000 for state expenditures.
9. Drainage District No. 7, Jefferson County, Texas qualified as a low-risk auditee.

B. Findings – Financial Statements Audit

Current Year *None*
Prior Year *None*

C. Findings and Questioned Costs – Major Federal Award Programs Audit

Current Year *None*
Prior Year *None*

TEXAS SUPPLEMENTARY INFORMATION

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
SERVICES AND RATES
September 30, 2024

1. Services provided by the District during the fiscal year:

<input type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" 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 checked="" type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency Interconnect)		
<input type="checkbox"/> Other (Specify): _____		

2. Retail service provides

a. Retail Rates for a on 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ _____	_____	_____	\$ _____	_____ to _____
WASTEWATER:	\$ _____	_____	_____	\$ _____	_____ to _____
SURCHARGE:	\$ _____	_____	_____	\$ _____	_____ to _____

District employs winter averaging for wastewater usage? Yes _____ No _____

Total water and wastewater charges per 10,000 gallons usage (including surcharges).

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ 3/4"			x 1.0	
1"			x 2.5	
1 1/2"			x 5.0	
2"			x 8.0	
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total water				
Total wastewater			x 1.0	

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
SERVICES AND RATES
September 30, 2024

- Continued -

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

Gallons pumped into system: N/A
Gallons billed to customers: N/A

4. Standby Fees (authorized only under TWC Section 49.231): **Not applicable**

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:

County in which District is located. Jefferson County, Texas

Is the District located entirely within one county? Yes ☒ No ☐

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

City in which District is located. Port Arthur, Port Neches, Nederland, Groves

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

ETJs in which District is located. N/A

Are Board members appointed by an office outside the District? Yes ☐ No ☒

If yes, by whom? N/A

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
GENERAL FUND EXPENDITURES
For Year Ended September 30, 2024

<i>Personnel expenditures (including benefits)*</i>	\$ 14,131,256
<i>Professional fees -</i>	
Auditing	20,000
Legal	60,600
Engineering	127,995
Consulting	171,035
<i>Purchased services for resale -</i>	
Bulk water and sewer service purchases	-
<i>Contracted services -</i>	
Bookkeeping	33,800
Appraisal district	310,672
Tax collector	24,701
Other contracted services	144,756
<i>Utilities</i>	73,178
<i>Repairs and maintenance</i>	537,486
<i>Administrative expenditures -</i>	
Office supplies	8,670
Insurance	847,361
Other administrative expenditures	123,021
<i>Capital outlay -</i>	
Capitalized assets	5,317,362
Expenditures not capitalized	1,693,368
<i>Tap connection expenditures</i>	-
<i>Solid waste disposal</i>	-
<i>Fire fighting</i>	-
<i>Parks and recreation</i>	-
<i>Other expenditures- Legal settlement</i>	-
 Total Expenditures	 <u>\$ 23,625,261</u>

**Number of persons employed by the District*

<u>85</u>	Full-Time
<u>0</u>	Part-Time
<u>5</u>	Directors

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
TAXES LEVIED AND RECEIVABLE
For Year Ended September 30, 2024

	<i>General Fund</i>			
<i>Taxes Receivable, Beginning of Year</i>	\$ 1,968,253			
2023 Original tax levy	45,870,976			
Adjustments	(578,452)			
Total to be Accounted For	<u>47,260,777</u>			
Tax collections -				
Current year	44,583,871			
Prior years	248,493			
Total Collections	<u>44,832,364</u>			
<i>Taxes Receivable, End of Year</i>	<u>\$ 2,428,413</u>			
<i>Taxes Receivable by Years</i>				
2023	\$ 991,500			
2022	376,570			
2021	273,874			
2020	162,133			
2019	144,596			
Before 2019	<u>479,740</u>			
<i>Taxes Receivable, End of Year</i>	<u>\$ 2,428,413</u>			
<i>Property Valuations</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 14,297,965,513	\$ 13,066,663,359	\$ 11,687,047,371	\$ 11,329,821,287
<i>Tax Rates Per \$100 Valuation</i>				
General Fund	\$.3205730	\$.258589	\$.284775	.294990
<i>Original Levy</i>	\$ 45,870,976	\$ 33,801,976	\$ 33,309,465	33,439,528
<i>Percent of Taxes Collected to Taxes Levied</i>	<u>97.19%</u>	<u>97.44%</u>	<u>97.79%</u>	<u>98.36%</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION
LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
For Year Ended September 30, 2024**

<i>Year Ending September 30,</i>	<i>Maintenance Notes, Series 2014</i>		
	<i>Principal Due 09/01</i>	<i>Interest Due 3/01, 09/01</i>	<i>Total</i>
2025	995,000	420,938	1,415,938
2026	1,030,000	385,588	1,415,588
2027	1,065,000	354,163	1,419,163
2028	1,095,000	320,394	1,415,394
2029	1,140,000	279,800	1,419,800
2030	1,185,000	233,300	1,418,300
2031	1,230,000	185,000	1,415,000
2032	1,285,000	134,700	1,419,700
2033	1,335,000	82,300	1,417,300
2034	1,390,000	27,800	1,417,800
	<u>\$ 11,750,000</u>	<u>\$ 2,423,983</u>	<u>\$ 14,173,983</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
CHANGES IN GENERAL LONG-TERM DEBT
For Year Ended September 30, 2024

	<u><i>Maintenance Note Issues Series 2014</i></u>	<u><i>Totals</i></u>
Interest rates	3.00 – 5.00%	
Dates interest payable	Mar. 1, Sept. 1	
Maturity dates	Sept. 1, 2034	
Notes outstanding at beginning of current year	\$ 12,710,000	\$ 12,710,000
Retirements during current year - Principal	<u>(960,000)</u>	<u>(960,000)</u>
Notes outstanding at end of current year	<u>\$ 11,750,000</u>	<u>\$ 11,750,000</u>
Retirements during current year - Interest	<u>\$ 460,038</u>	<u>\$ 460,038</u>
Paying agent's name and city - Series 2014	Wells Fargo Bank – Dallas, Texas	
Note authority –		<u><i>Maintenance Note Series 2014</i></u>
Amount authorized Board of Commissioners	\$	19,480,000
Amount issued		19,480,000
Remaining to be issued		-
Debt Service Fund cash and temporary investment balances as of September 30, 2024	\$	56,544
Average annual debt service payment (principal and interest) for remaining term of all debt	\$	1,417,398

**TEXAS SUPPLEMENTARY INFORMATION
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES -
GENERAL FUND AND DEBT SERVICE FUND**

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES -
GENERAL FUND AND DEBT SERVICE FUND**

For Five Years Ended September 30,

	<i>Amounts</i>		
	<i>2024</i>	<i>2023</i>	<i>2022</i>
<u>General Fund</u>			
Revenues			
Property taxes	\$ 45,187,883	\$ 33,572,062	\$ 33,162,442
Interest	1,039,990	677,385	81,863
Other	699,386	332,013	646,393
Total Revenues	<u>46,927,259</u>	<u>34,581,460</u>	<u>33,890,698</u>
Expenditures			
Salaries and wages	8,882,693	8,208,184	7,729,979
Maintenance, repairs, administrative and legal	7,731,837	7,651,701	6,880,053
Capital projects	7,010,731	12,079,293	7,090,109
Total Expenditures	<u>23,625,261</u>	<u>27,939,178</u>	<u>21,700,141</u>
Excess Revenues (Expenditures)	<u>\$ 23,301,998</u>	<u>\$ 6,642,282</u>	<u>\$ 12,190,557</u>
<u>Debt Service Fund</u>			
Revenues			
Property taxes	\$ -	\$ -	\$ -
Interest	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures			
Administrative	750	750	750
Debt service, interest and fees	1,420,038	1,417,638	1,418,737
Total Expenditures	<u>1,420,788</u>	<u>1,418,388</u>	<u>1,419,487</u>
Excess Revenues (Expenditures)			
Operating transfers	<u>1,424,619</u>	<u>1,417,638</u>	<u>1,460,000</u>
Excess Revenues (Expenditures)	<u>\$ 3,831</u>	<u>\$ (750)</u>	<u>\$ 40,513</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES –
GENERAL FUND AND DEBT SERVICE FUND
For Five Years Ended September 30,

		<i>Percent of Fund Total Revenues</i>				
<u>2021</u>	<u>2020</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
\$ 33,439,966	\$ 36,564,024	96.29%	97.08%	97.85%	91.45%	93.41%
22,085	202,365	2.22	1.96	.24	.06	.52
3,105,210	2,375,397	1.49	.96	1.91	8.49	6.07
<u>36,567,261</u>	<u>39,141,786</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
7,061,602	6,496,563	18.93	23.74	22.81	19.31	16.60
6,581,202	6,251,499	16.48	22.13	20.30	18.00	15.97
9,449,503	8,552,752	14.94	34.93	20.92	25.84	21.85
<u>23,092,307</u>	<u>21,300,814</u>	<u>50.35</u>	<u>80.80</u>	<u>64.03</u>	<u>63.15</u>	<u>54.42</u>
\$ <u>13,474,954</u>	\$ <u>17,840,972</u>	<u>49.65%</u>	<u>19.20%</u>	<u>35.97%</u>	<u>36.85%</u>	<u>45.58%</u>
\$ -	\$ -	N/A	N/A	N/A	N/A	N/A
-	-	N/A	N/A	N/A	N/A	N/A
		N/A	N/A	N/A	N/A	N/A
750	750	N/A	N/A	N/A	N/A	N/A
1,418,438	1,416,737	N/A	N/A	N/A	N/A	N/A
<u>1,419,188</u>	<u>1,417,487</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
		N/A	N/A	N/A	N/A	N/A
<u>1,418,718</u>	<u>1,420,000</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ <u>(470)</u>	\$ <u>2,513</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
September 30, 2024

Complete District mailing address: 4401 Ninth Ave., (P. O. Box 3244), Port Arthur, Texas 77642

District business telephone number: (409) 985-4369

<u>Name and Address</u>	<u>Term of Office Date Elected or Date Hired</u>	<u>Fee and Expense Reimbursements September 30, 2024</u>	<u>Title at Year End</u>	<u>Resident of District</u>
Board Members				
Richard D. Beaumont 6649 Howe Groves, Texas 77619	(Elected) 5/24 – 5/28	\$ 4,800	Chairman	Yes
Lester Champagne 1620 Tallowood Nederland, Texas 77627	(Elected) 5/22 – 5/26	\$ 4,800	Vice-Chairman	Yes
Albert J. Moses, Jr. 217 Live Oak Lane Port Arthur, Texas 77642	(Elected) 5/22 – 5/26	\$ 4,800	Secretary	Yes
James Gamble, Sr. 268 Linkwood ⁴⁴ Street Port Arthur, Texas 77640	(Elected) 5/24 – 5/28	\$ 4,800	Commissioner	Yes
Mathew Vincent 1734 Green Oaks Drive Port Neches, Texas 77651	(Elected) 5/24 – 5/28	\$ 4,800	Commissioner	Yes

Note: No commissioner is disqualified from serving on this board under the Texas Water Code.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
September 30, 2024

- Continued -

<u><i>Name and Address</i></u>	<u><i>Term of Office Date Elected or Date Hired</i></u>	<u><i>Fee and Expense Reimbursements September 30, 2024</i></u>	<u><i>Title at Year End</i></u>
<i>Key Personnel</i>			
Phil Kelley 5349 Whitaker Groves, Texas 77619		\$ 267,702	Manager
<i>Consultants</i>			
Arceneaux Wilson & Cole LLC 3120 Central Mall Drive Port Arthur, Texas 77642-8068		\$ 3,000	Consultant
Charles E. Reed & Associates 3636 Professional Drive Port Arthur, Texas 77642		\$ 20,000	Auditor
Dan Delich Consulting 2805 Oakland Hills Drive Plano, Texas 75025		\$ 29,596	Consultant
FMW , P.C. 1150 N. Eleventh Street Beaumont, Texas 77702-1207		\$ 41,050	Bookkeeping/ Accountant
Gannett Fleming, Inc. P.O. Box 22295 Houston, Texas 77227		\$ 63,951	Consultant
Glenn H. Steele, Jr., PLLC P. O. Box 1117 Port Neches, Texas 77651		\$ 86,450	Legal Counsel

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS**

September 30, 2024

- Continued --

<i><u>Name and Address</u></i>	<i><u>Term of Office Date Elected or Date Hired</u></i>	<i><u>Fee and Expense Reimbursements September 30, 2024</u></i>	<i><u>Title at Year End</u></i>
<i>Consultants (Continued)</i>			
Jeffrey S. Ward & Associates, Inc. P.O. Box 4356 Leesburg, Virginia 20177		\$ 85,000	Consultant
LJA Engineering 2929 Briarpark, Suite 600 Houston, Texas 77042		\$ 272,660	Consultant
LJA Environmental Services, LLC P.O. Box 4346 Houston, Texas 77210-4346		\$ 253,162	Consultant
LJA Surveying, Inc. P.O. Box 4346 Houston, Texas 77210-4346		\$ 67,398	Consultant
Mazzanti & Associates, LLC 6034 Vanderbilt Avenue Dallas, Texas 75206		\$ 31,989	Consultant
Ray Russo 4636 Lorraine Avenue Dallas, Texas 75209		\$ 66,476	Consultant
Richards, Rodriguez, Skeith, LLP 816 Congress Ave. #1200 Austin, Texas 78701		\$ 27,571	Legal Counsel

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
September 30, 2024

- Continued -

<i><u>Name and Address</u></i>	<i><u>Term of Office Date Elected or Date Hired</u></i>	<i><u>Fee and Expense Reimbursements September 30, 2024</u></i>	<i><u>Title at Year End</u></i>
<i>Consultants (Continued)</i>			
Ron Lewis & Associates 919 Congress Ave., Suite 1030 Austin, Texas 78701		\$ 42,000	Consultant
Texan Engineering & Consulting 2113 Ranch Loop Drive New Braunfels, Texas 78132		\$ 370,603	Consultant