

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
TOGETHER WITH
INDEPENDENT AUDITORS' 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 Commissioners
Drainage District No. 7, Jefferson County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Drainage District No. 7, Jefferson County, Texas, as of and for the year ended September 30, 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Drainage District No. 7, Jefferson County, Texas, as of September 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4 through 8 and pages 36 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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' basic financial statements. The accompanying Texas Supplementary Information on pages 48 through 57, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 41 is presented for purposes 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 is also not a required part of the basic financial statements.

The Texas Supplementary Information and the Schedule of Expenditure of Financial Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 February 10, 2020, 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

February 10, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

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, 2019. 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 to the Debt Service Fund for debt servicing; paying the principal and interest on the long term debt.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

FINANCIAL HIGHLIGHTS

- The net position for the District at September 30, 2019 was \$100,419,379.
- The District's net position increased by \$13,325,346 for the year ended September 30, 2019.
- The District was affected by Hurricane Harvey, which caused damage to parts of the District's infrastructure, during the period August 25, 2017 through August 31, 2017. The District has compiled a list of damages and working with FEMA through their Public Assistance Program to repair the damages, many of which have already been repaired. This process is ongoing.

FINANCIAL ANALYSIS

The largest portion of the District's total assets (78.87%) 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.

	<i>2019</i>	<i>2018</i>
<i>Assets</i>		
Current and other assets	\$ 27,505,399	\$ 20,828,099
Capital assets	102,649,570	95,751,037
Total Assets	<u>\$ 130,154,969</u>	<u>\$ 116,579,136</u>
<i>Deferred Outflows of Resources</i>		
Deferred pension and other benefit related outflows	<u>\$ 3,265,566</u>	<u>\$ 1,011,317</u>
<i>Liabilities</i>		
Accounts payable	\$ 1,163,823	\$ 957,486
Long-term liabilities	30,900,114	28,270,187
Accrued expenses	113,911	109,410
Other liabilities	379,605	53,128
Total Liabilities	<u>\$ 32,557,453</u>	<u>\$ 29,390,211</u>
<i>Deferred Inflows of Resources</i>		
Deferred pension and other benefit related inflows	<u>\$ 443,703</u>	<u>\$ 1,106,209</u>
<i>Net Position</i>		
Net investment in capital assets	\$ 86,469,570	\$ 78,791,037
Restricted for debt service	10,907	28,970
Restricted for capital projects	2,861,023	2,199,511
Unrestricted	11,077,879	6,074,515
Total Net Position	<u>\$ 100,419,379</u>	<u>\$ 87,094,033</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

The following provides a summary of the District's operation for the year ended September 30, 2019 with comparative totals for the year ended September 30, 2018.

	<u>2019</u>	<u>2018</u>
<i>Revenues</i>		
Current taxes	\$ 23,727,930	\$ 20,291,529
Delinquent taxes	1,579,144	250,695
Investment earnings	213,623	42,002
FEMA disaster assistance grants	289,931	8,070
Other federal grants	3,567,333	2,907,089
State of Texas grants	-	239,220
Insurance proceeds	86,000	983,964
Other	216,992	631,699
Total Revenues	<u>29,680,953</u>	<u>25,354,268</u>
<i>Expenditures/Expenses</i>		
Service operations	12,440,154	11,901,500
Pump stations	1,418,583	1,618,533
Special projects	-	189,384
Ditch and levee maintenance	490,772	472,123
Interest	584,937	622,752
Depreciation	1,421,161	1,422,989
Total Expenditures/Expenses	<u>16,355,607</u>	<u>16,227,281</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>13,325,346</u>	<u>9,126,987</u>
Net position- beginning of year, as previously reported	87,094,033	82,409,470
Prior period adjustment	-	(4,442,424)
Net position- beginning of year, as restated	<u>87,094,033</u>	<u>77,967,046</u>
Net position- end of year	<u>\$ 100,419,379</u>	<u>\$ 87,094,033</u>

ANALYSIS OF CHANGES IN CAPITAL ASSETS AND LONG-TERM DEBT

The District's net investment in capital assets as of September 30, 2019, amounts to \$102,649,570 (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 7.20%.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

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 \$1,421,161 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 \$8,497,245.

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

	<u>2019</u>	<u>2018</u>
Land and rights-of-way	\$ 12,475,691	\$ 12,475,691
Buildings and structures	2,739,179	2,701,852
Levees and ditches	16,194,458	17,288,435
Equipment	464,463	467,892
Construction in process	<u>70,775,779</u>	<u>62,817,167</u>
Total	<u>\$ 102,649,570</u>	<u>\$ 95,751,037</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 \$16,180,000.

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

	<u>2019</u>	<u>2018</u>
Maintenance Notes Payable, Series 2014	<u>\$ 16,180,000</u>	<u>\$ 16,960,000</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
- Continued -

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 are briefly summarized as follows:

- Actual revenues exceeded budgeted revenues by \$3,280,831 mainly due to grant revenues that were not budgeted.
- Actual expenditures were under budget by \$12,285,421 due to actual expenditures for special projects less than amounts budgeted.
- The District had a positive budget variance of \$15,585,052 resulting from actual revenues exceeding budgeted amounts and actual expenditures less than budgeted expenditures.

Subsequent Events -

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><u>\$ 863,000,000</u></u>

Drainage District No. 7 entered 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 the District for allowable project costs for the project through June 2021, which is the beginning of the new legislative biennium. Total reimbursements may not exceed \$148,072,000. DD7 is currently working with the State of Texas Legislature and the GLO to obtain funding for the next legislative session, the biennium beginning June 2021.

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**

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND
BALANCE SHEET**
September 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>Assets</u>					
<i>Cash</i>					
Petty cash	\$ 1,000	\$ -	\$ 1,000	\$ -	\$ 1,000
Checking accounts	23,487,499	10,907	23,498,406	-	23,498,406
<i>Accounts Receivable</i>					
Delinquent taxes (net of allowance for estimated uncollectibles)	1,687,948	-	1,687,948	-	1,687,948
Hazard mitigation grant receivable	826,794	-	826,794	-	826,794
Disaster assistance grant receivable	1,491,251	-	1,491,251	-	1,491,251
<i>Capital Assets</i>					
Land and rights-of-way	-	-	-	12,475,691	12,475,691
Building and structures	-	-	-	2,739,179	2,739,179
Levees and ditches	-	-	-	16,194,458	16,194,458
Equipment	-	-	-	464,463	464,463
Construction in process	-	-	-	70,775,779	70,775,779
Total Assets	<u>27,494,492</u>	<u>10,907</u>	<u>27,505,399</u>	<u>102,649,570</u>	<u>130,154,969</u>
<u>Deferred Outflows of Resources</u>					
<i>Deferred Outflows of Resources</i>					
Deferred pension and other benefit related outflows	\$ -	\$ -	\$ -	\$ 3,265,566	\$ 3,265,566

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**
September 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>Liabilities</u>					
Accounts payable	\$ 1,163,823	\$ -	\$ 1,163,823	\$ -	\$ 1,163,823
Bank overdraft	329,460	-	329,460	-	329,460
Accrued interest	-	-	-	50,145	50,145
Accrued expense	113,911	-	113,911	-	113,911
Long-term liabilities					
Due within one year	-	-	-	1,077,378	1,077,378
Due after one year	-	-	-	29,822,736	29,822,736
Total Liabilities	<u>1,607,194</u>	<u>-</u>	<u>1,607,194</u>	<u>30,950,259</u>	<u>32,557,453</u>
<u>Deferred Inflows of Resources</u>					
<u>Deferred Inflows of Resources</u>					
Deferred revenue - delinquent taxes receivable	1,687,948	-	1,687,948	(1,687,948)	-
Deferred pension and other benefit related inflows	-	-	-	443,703	443,703
Total Deferred Inflows of Resources	<u>1,687,948</u>	<u>-</u>	<u>1,687,948</u>	<u>(1,244,245)</u>	<u>443,703</u>
<u>Fund Balance/Net Position</u>					
<u>Fund balance</u>					
Restricted for debt service	-	10,907	10,907	(10,907)	
Committed	9,922,450	-	9,922,450	(9,922,450)	
Assigned - for capital projects	2,861,023	-	2,861,023	(2,861,023)	
Unassigned	11,415,877	-	11,415,877	(11,415,877)	
Total Fund Balance	<u>24,199,350</u>	<u>10,907</u>	<u>24,210,257</u>	<u>(24,210,257)</u>	
Total Liabilities and Fund Balances	<u>\$ 27,494,492</u>	<u>\$ 10,907</u>	<u>\$ 27,505,399</u>		
<u>Net Position</u>					
Net investment in capital assets				86,469,570	86,469,570
Restricted for debt service				10,907	10,907
Restricted for capital projects				2,861,023	2,861,023
Unrestricted				11,077,879	11,077,879
Total Net Position				<u>\$ 100,419,379</u>	<u>\$ 100,419,379</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, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues					
Current taxes	\$ 23,727,930	\$ -	\$ 23,727,930	\$ -	\$ 23,727,930
Delinquent taxes	220,800	-	220,800	1,358,344	1,579,144
Investment earnings	213,398	225	213,623	-	213,623
Federal grants	3,857,264	-	3,857,264	-	3,857,264
Insurance proceeds	86,000	-	86,000	-	86,000
Other	216,992	-	216,992	-	216,992
Total Revenues	<u>28,322,384</u>	<u>225</u>	<u>28,322,609</u>	<u>1,358,344</u>	<u>29,680,953</u>
Expenditures/Expenses					
Current					
Salaries and wages	6,334,918	-	6,334,918	(21,582)	6,313,336
Fringe benefits	3,854,124	-	3,854,124	564,372	4,418,496
Materials and supplies	230,203	-	230,203	-	230,203
Maintenance and utilities	224,449	-	224,449	-	224,449
Miscellaneous services	1,208,614	-	1,208,614	-	1,208,614
Pump stations	1,418,583	-	1,418,583	-	1,418,583
Capital Outlay					
Special projects	8,136,164	-	8,136,164	(8,136,164)	-
Capital outlay	227,836	-	227,836	(183,530)	44,306
Ditch and levee maintenance	490,772	-	490,772	-	490,772
Depreciation	-	-	-	1,421,161	1,421,161
Debt Service					
Principal	-	780,000	780,000	(780,000)	-
Interest	-	637,538	637,538	(52,601)	584,937
Bond fee	-	750	750	-	750
Total Expenditures/Expenses	<u>22,125,663</u>	<u>1,418,288</u>	<u>23,543,951</u>	<u>(7,188,344)</u>	<u>16,355,607</u>
Other Financing Sources (Uses)					
Transfers	(1,400,000)	1,400,000	-	-	-
Total Other Financing Sources (Uses)	<u>(1,400,000)</u>	<u>1,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	4,796,721	(18,063)	4,778,658	(4,778,658)	-
Change in Net Position				13,325,346	13,325,346
Fund Balances/Net Position					
Beginning of year	<u>19,402,629</u>	<u>28,970</u>	<u>19,431,599</u>	<u>67,662,434</u>	<u>87,094,033</u>
End of year	<u>\$ 24,199,350</u>	<u>\$ 10,907</u>	<u>\$ 24,210,257</u>	<u>\$ 76,209,122</u>	<u>\$ 100,419,379</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, 2019

Governmental fund balance as reported on the balance sheet for governmental funds	\$	24,210,257
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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		102,649,570
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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		(16,180,000)
Unamortized premium on note payable		(731,872)
Compensated absences		(212,759)
Other post-employment benefits		(7,979,310)
Net pension liability		(5,796,173)
Accrued interest expense		(50,145)

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		1,687,948
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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		(187,352)
Change in assumptions		7,045
Differences between projected and actual earnings		2,331,878
Contributions subsequent to measurement date		670,292

Total net position as reported on the Statement of Net Position for governmental activities	\$	<u>100,419,379</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, 2019

Net change in fund balances for total governmental funds	\$ 4,778,658
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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.

Current year net capital asset purchase costs, net of disposals	8,319,694
Current year net depreciation expense, net of disposals	(1,421,161)

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.

Principal payment on notes payable	780,000
Premium amortization	49,618

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.

Accrued interest on notes payable	2,983
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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.

Compensated absences net of expenditures	21,582
Other post-employee benefits net of expenditures	(59,317)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Collections on prior year levies	1,358,344
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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.

Adjustment to pension expense	(1,175,347)
Contributions subsequent to measurement date	670,292

Change in net position of governmental activities	\$ <u>13,325,346</u>
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The accompanying notes are an integral part of these financial statements.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

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

- Continued -

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 fund.

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.

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 collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

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

- Continued -

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

- Continued -

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	\$ 4,796,721	\$ 24,199,350
Increase (decrease) due to revenues -		
Grant receivable	251,673	(2,318,045)
Increase (decrease) due to expenditures -		
Accounts payable	206,337	1,163,823
Encumbrances	6,747	(397,363)
Budget Basis (Non-GAAP)	<u>\$ 5,261,478</u>	<u>\$ 22,647,765</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

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, 2019, liabilities included \$212,759 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. 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.

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

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

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

M. Adjustments - (Continued)

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.

N. 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

- Continued -

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

N. 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 (page 9). 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.

O. Date of Management's Review -

Events occurring subsequent to September 30, 2019 were evaluated by management and reviewed through February 10, 2020, the date the financial statements were available to be issued.

Subsequent Events -

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 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 the District for allowable project costs for the project through June 2021, which is the beginning of the new legislative biennium. Total reimbursements may not exceed \$148,072,000. DD7 is currently working with the State of Texas Legislature and the GLO to obtain funding for the next legislative session, the biennium beginning June 2021.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
- Continued -

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 \$23,498,406 and the bank balance was \$23,520,052. All demand deposits as of the balance sheet date were entirely insured by federal depository coverage and pledged securities.

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.

Due to the extremely low interest rates, the District does not have any investments as of September 30, 2019. All 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 2018 was set at \$.239850 per \$100 of appraised property value for maintenance and operation. The tax rate for 2019 has been set at \$.311805 per \$100 of appraised property value for maintenance and operation. District property tax revenues are recognized when actually received.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

NOTE 3 - PROPERTY TAXES (Continued)

Property taxes receivable as of September 30, 2019, were comprised of the following -

<u>Year of Levy</u>	<u>General Fund</u>
2018	\$ 2,135,997
2017	192,118
2016	108,669
2015	90,419
2014	81,422
Before 2014	402,750
Total property taxes receivable	3,011,375
Less: Allowance for uncollectibles	(1,323,427)
	<u>\$ 1,687,948</u>

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance Oct. 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2019</u>
Land and rights-of-way	\$ 12,475,691	\$ -	\$ -	\$ 12,475,691
Buildings and structures	35,603,410	177,551	-	35,780,961
Levees and ditches	104,596,859	-	-	104,596,859
Equipment	3,210,753	183,530	-	3,394,283
Construction in process	62,817,166	8,136,164	(177,551)	70,775,779
	<u>\$ 218,703,879</u>	<u>\$ 8,497,245</u>	<u>\$ (177,551)</u>	<u>\$ 227,023,573</u>
Accumulated depreciation	<u>\$ 122,952,842</u>	<u>\$ 1,421,161</u>	<u>\$ -</u>	<u>124,374,003</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

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 TCDRS 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. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS 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 TCDRS (TCDRS 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 employee-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 TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

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 14.94% for the months of the accounting year in 2018, and 14.28% for the months of the accounting year in 2019. The deposit rate payable by the employee members for calendar year 2019 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, 2018 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2018 included (a) 8.00 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 3.25 percent. Both (a) and (b) included an inflation component of 2.75 percent.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

NOTE 5 - RETIREMENT PLAN (Continued)

For the employer's accounting year ended September 30, 2019, the annual pension contribution for the TCDRS plan by its employees was \$439,771 and the employer cost was \$878,810. Contributions payable at September 30, 2019 for the employer portion of the pension expense was \$74,942 and the employee portion was \$37,471.

Net Pension Liability/(Asset) -

	<u>December 31, 2017</u>	<u>December 31, 2018</u>
Total pension liability	\$ 41,428,989	\$ 43,622,609
Fiduciary net position	39,066,162	37,826,436
Net pension liability/(asset)	<u>\$ 2,362,827</u>	<u>\$ 5,796,173</u>
Fiduciary net position as a % of total pension liability	94.30%	86.71%
Pensionable covered payroll ⁽¹⁾	\$ 6,370,830	\$ 6,065,527
Net pension liability as a % of covered payroll	37.09%	95.56%

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

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⁾	8.10%	8.10%
Long-term expected rate of return, net of investment expense ⁽²⁾	8.10%	8.10%
Municipal bond rate ⁽³⁾	N/A	N/A

⁽²⁾ This rate reflects the long-term rate of return funding valuation assumption of 8.00%, 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, 2018 funding valuation, except as noted below and throughout this report. Please see the employer summary actuarial valuation report as of December 31, 2018 for further details.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

NOTE 5 - RETIREMENT PLAN (Continued)

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 normal ⁽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
Inflation	2.75%
Salary Increases	3.25%
Investment Rate of Return	8.10% (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.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

NOTE 5 - RETIREMENT PLAN (Continued)

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

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

Mortality

Depositing members	90% of the RP-2014 Active Employee mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

⁽¹⁾ Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

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 2019 information for a 10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 - December 31, 2016 for more details.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

NOTE 5 - RETIREMENT PLAN (Continued)**Long-term Expected Rate of Return - (Continued)**

<i>Asset Class</i>	<i>Benchmark</i>	<i>Target⁽¹⁾ Allocation</i>	<i>Geometric Real Rate of Return (Expected minus Inflationary)⁽²⁾</i>
US Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities- Developed Markets	MSCI World Ex USA (net) Index	10.00%	5.40%
International Equities- Emerging Markets	MSCI Emerging Markets (net) Index	7.00%	5.90%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S & P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

⁽¹⁾ Target asset allocation adopted at the April 2019 TCDRS Board meeting.⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.70%, per Cliffwater's 2019 capital market assumptions.⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.⁽⁴⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.⁽⁵⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

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, 2017	\$ 41,428,989	\$ 39,066,162	\$ 2,362,827
Changes for the year:			
Service cost	709,860	-	709,860
Interest on total pension liability ⁽¹⁾	3,342,650	-	3,342,650
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(81,153)	-	(81,153)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	(1,777,737)	(1,777,737)	-
Administrative expenses	-	(30,382)	30,382
Member contributions	-	424,587	(424,587)
Net investment income	-	(733,004)	733,004
Employer contributions	-	886,780	(886,780)
Other ⁽²⁾	-	(9,970)	9,970
Balances as of December 31, 2018	<u>\$ 43,622,609</u>	<u>\$ 37,826,436</u>	<u>\$ 5,796,173</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 8.10%, 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 (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 48,838,736	\$ 43,622,609	\$ 39,159,894
Fiduciary net position	37,826,436	37,826,436	37,826,436
Net pension liability/(asset)	<u>\$ 11,012,300</u>	<u>\$ 5,796,173</u>	<u>\$ 1,333,458</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

NOTE 5 - RETIREMENT PLAN (Continued)***Pension Expense/Income -***

	<i>January 1, 2018 to December 31, 2018</i>
Service cost	\$ 709,860
Interest on total pension liability ⁽¹⁾	3,342,650
Effect of plan changes	-
Administrative expenses	30,382
Member contributions	(424,587)
Expected investment return net of investment expenses	(3,144,236)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(88,250)
Recognition of assumption changes or inputs	22,600
Recognition of investment gains or losses	935,476
Other ⁽²⁾	9,970
Pension expense/income	<u>\$ 1,393,865</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, 2018, 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	\$ 362,267	\$ 179,500
Changes of assumptions	57,766	74,084
Net difference between projected and actual earnings	-	2,331,878
Contributions made subsequent to measurement date	N/A	670,292
	<u>\$ 420,033</u>	<u>\$ 3,255,754</u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
- Continued -

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:

2019	\$ 1,463,534
2020	334,239
2021	259,114
2022	792,357
2023	(13,523)
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.

NOTE 6 - LONG-TERM DEBT

The following is a summary of notes payable transactions of the District for the year ended September 30, 2019 -

	<u><i>Beginning Balance</i></u>	<u><i>Debt Issued</i></u>	<u><i>Principal (Payments)</i></u>	<u><i>Ending Balance</i></u>
<i>Maintenance Notes Payable</i>				
Dated 7/1/14, due 9/1/34; interest varies to 5.0%	\$ 16,960,000	\$ -	\$ (780,000)	\$ 16,180,000
	<u>16,960,000</u>	<u>-</u>	<u>(780,000)</u>	<u>16,180,000</u>
		<u>\$ -</u>	<u>\$ (780,000)</u>	
Less: Current maturities	<u>(780,000)</u>			<u>(815,000)</u>
<i>Long-term Portion</i>	<u>\$ 16,180,000</u>			<u>\$ 15,365,000</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

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 \$780,000 to \$1,390,000 through September 2034 with interest rates ranging from 3.00% to 5.00% based on the established maturity schedule.

Debt service requirements to maturity at September 30, 2019, are as follows -

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 815,000	\$ 601,738	\$ 1,416,738
2021	850,000	568,438	1,418,438
2022	885,000	533,738	1,418,738
2023	920,000	497,638	1,417,638
2024	960,000	460,038	1,420,038
2025 - 2029	5,325,000	1,760,883	7,085,883
2030 - 2034	6,425,000	663,100	7,088,100
2035	-	-	-
	<u>\$ 16,180,000</u>	<u>\$ 5,085,573</u>	<u>\$ 21,265,573</u>

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2019 -

	<u>Beginning Balance</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 16,960,000	\$ -	\$ (780,000)	\$ 16,180,000	\$ 815,000
Unamortized premium on notes payable	781,490	-	(49,618)	731,872	49,619
Compensated absences	234,341	338,519	(360,101)	212,759	212,759
OPEB obligation	7,931,529	465,429	(417,648)	7,979,310	-
Net pension liability	<u>2,362,827</u>	<u>4,825,866</u>	<u>(1,392,520)</u>	<u>5,796,173</u>	<u>-</u>
	<u>\$ 28,270,187</u>	<u>\$ 5,629,814</u>	<u>\$ (2,999,887)</u>	<u>\$ 30,900,114</u>	<u>\$ 1,077,378</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

- Continued -

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, 2019, these taxes represented approximately 18% of total revenues.

NOTE 8 - COMMITMENTS

The District has the following commitment at September 30, 2019 -

Alligator Bayou Pump Station Project	\$ 851,553
Crane Bayou and Delmar Pump Stations	1,576,270
Rodair Gulley	433,200
	<u>\$ 2,861,023</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, 2018, the following employees were covered by the benefit terms:

	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefit payments	15
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	75

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 \$175,399.

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 years ended September 30, 2019, the cost of retiree health benefits, recorded on a pay-as-you-go basis was \$336,825.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
- Continued -

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, 2018, and was determined by an actuarial valuation as of October 1, 2018. The valuation includes all active employees and current retirees and their spouses who are currently receiving benefits under the retiree medical plan. Historical changes in the OPEB liability were used to roll forward the OPEB liability to the reporting date September 30, 2019.

The total OPEB liability in the September 30, 2018 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	Entry age actuarial cost method
Investment Rate of Return	20-year return on AA municipal bonds 3.25%
Mortality	RP-2014 mortality fully generational using projection scale MP-2017
Annual Termination Rates	Age 22 - 22.5%, Age 32 - 10.8%, Age 42 - 6.5%, Age 52 - 4.3%, Age 62 and over - 0.0%
New Employees	None
Disability Rate	N/A
Annual Retirement Rates	Age 50 to 54 - 10.0%, Age 55 to 64 - 20.0%, Age 65 and over - 100.0%
Salary Increases	3% annually
Monthly Claim Cost Per Participant	Age 50 - \$1,602.22, Age 55 - \$1,768.98, Age 60 - \$1,953.09, Age 64 - \$2,114.09
Health Care Cost Trends	2018 to 2019 - 9.0%, 2020 to 2021 - 8.0%, 2022 to 2023 - 7.0%, 2024 to 2025 - 6.0%, 2026 & later - 5.0%

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**Actuarial Methods and Assumptions - (Continued)**

Assumed Rate of Return on Plan Assets	N/A
Monthly Premium	\$1,540.00
Retiree Contribution	Retiree - \$0
Attribution Period	The attribution period is the portion of a participant's service to which the expected postretirement benefit obligation is assigned. The beginning of the attribution period is the date of hire and the end of the attribution period is the earliest eligibility date
Plan Participation	Future retirees - 100% Future spouses - 0% Percentage of employees who are married - N/A

Changes in Total OPEB Liability -

	<i>Total OPEB Liability</i>
Balances as of September 30, 2018	<u>\$ 7,931,529</u>
Changes for the year:	
Service cost	207,127
Interest	258,302
Changes of benefit terms	-
Differences between expected and actual experience	4,103
Changes of assumptions or other inputs	(18,163)
Benefit payments	(403,588)
Administrative expense	-
Net Changes	<u>47,781</u>
Balances as of September 30, 2019	<u><u>\$ 7,979,310</u></u>

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
- Continued -

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 3.25%, 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 (2.25%) or 1 percentage point higher (4.25%) than the current rate.

	<i>1% Decrease</i>	<i>Current Discount Rate</i>	<i>1% Increase</i>
	2.25%	3.25%	4.25%
Total OPEB liability	\$ 8,730,040	\$ 7,979,310	\$ 7,315,383

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 7.00%, 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 (8.00%) than the current rate.

	<i>1% Decrease</i>	<i>Current Discount Rate</i>	<i>1% Increase</i>
	6.00%	7.00%	8.00%
Total OPEB liability	\$ 7,231,573	\$ 7,979,310	\$ 8,850,246

OPEB Expense

	<i>October 1, 2018 to September 30, 2019</i>
Service cost	\$ 207,127
Interest	258,302
Expected return on investments	-
Recognition of difference between expected and actual experience	(1,187)
Recognition of changes in assumptions or other inputs	(1,336)
OPEB expense	<u>\$ 462,906</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS

- Continued -

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (Continued)

Deferred Inflows and Outflows of Resources -

As of September 30, 2019, the deferred inflows and outflows of resources are as follows:

	<i><u>Deferred Inflows of Resources</u></i>	<i><u>Deferred Outflows of Resources</u></i>
Differences between expected and actual experience	\$ 8,102	\$ 3,517
Changes of assumptions	15,568	6,295
Net difference between projected and actual earnings	-	-
	<u>\$ 23,670</u>	<u>\$ 9,812</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:

2019	\$ (2,523)
2020	(2,523)
2021	(2,523)
2022	(2,523)
2023	(1,760)
Thereafter	(2,006)

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 received a letter from the Environmental Protection Agency (EPA) informing them that they have been identified as a potentially responsible party (PRP) under the superfund provisions of CERCLA pertaining to the Star Lake Canal Superfund Site. The District and their legal counsel have been in correspondence with the EPA for several years, discussing the District's limited involvement. The District's goal has been to dissuade the EPA from including the District as a PRP because of the circumstances surrounding their involvement. At present the District is unable to determine the likelihood or extent of liability and no liability has been accrued in these financial statements. The District's strategy to vigorously deny liability and to seek contribution and indemnity from the other PRP's who are in fact responsible for any existing contamination.

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

NOTES TO FINANCIAL STATEMENTS
- Continued -

NOTE 11 - PRIOR PERIOD ADJUSTMENT

During fiscal year end September 30, 2018, the District adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments to report the unfunded actuarial accrued liability for the plan on the balance sheet. Formerly it was reported in the notes to the financial statements only. The effect of this change was to decrease beginning net position by \$4,442,424.

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, 2019

	<i>Actual</i>	<i>Original Budget</i>	<i>Final Budget</i>	<i>Variance Positive (Negative)</i>
Revenues				
Current taxes	\$ 23,727,930	\$ 25,013,226	\$ 25,013,226	\$ (1,285,296)
Delinquent taxes	220,800	150,000	150,000	70,800
Investment earnings	213,398	100,000	100,000	113,398
FEMA reimbursement	4,108,936	-	-	4,108,936
Insurance proceeds	86,001	-	-	86,001
Miscellaneous	216,992	30,000	30,000	186,992
Total Revenues	<u>28,574,057</u>	<u>25,293,226</u>	<u>25,293,226</u>	<u>3,280,831</u>
Expenditures/Expenses				
Salaries and wages	6,335,072	6,752,000	6,752,000	416,928
Fringe benefits	3,673,074	4,831,000	4,831,000	1,157,926
Materials and supplies	274,824	415,000	415,000	140,176
Maintenance and utilities	223,976	280,000	280,000	56,024
Miscellaneous services	1,297,882	1,455,000	1,530,000	232,118
Pump stations	1,557,455	2,000,000	2,000,000	442,545
Special projects	7,858,228	17,650,000	17,575,000	9,716,772
Ditch and levee maintenance	465,453	500,000	500,000	34,547
Capital outlay	226,615	315,000	315,000	88,385
Total Expenditures	<u>21,912,579</u>	<u>34,198,000</u>	<u>34,198,000</u>	<u>12,285,421</u>
Other Sources (Uses)				
Transfer to debt service fund	<u>(1,400,000)</u>	<u>(1,418,800)</u>	<u>(1,418,800)</u>	<u>18,800</u>
Total Other Sources (Uses)	<u>(1,400,000)</u>	<u>(1,418,800)</u>	<u>(1,418,800)</u>	<u>18,800</u>
Excess (Deficiency) of Revenues over Expenditures and Other Sources (Uses)	\$ 5,261,478	<u>(10,323,574)</u>	<u>(10,323,574)</u>	<u>15,585,052</u>
Fund Balance/Net Position				
Beginning of the year	<u>17,386,287</u>			
End of the year	<u>\$ 22,647,765</u>			

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

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

Year Ending December 31

	2018	2017	2016	2015	2014	2013	2012	2011	2010
<u>Total Pension Liability</u>									
Service cost	\$ 709,860	\$ 679,961	\$ 739,128	\$ 696,604	\$ 670,795	N/A	N/A	N/A	N/A
Interest on total pension liability	3,342,650	3,151,025	2,984,927	2,806,393	2,655,025	N/A	N/A	N/A	N/A
Effect of plan changes	-	-	-	(76,200)	-	N/A	N/A	N/A	N/A
Effect of assumption changes or inputs	-	(86,650)	-	222,251	-	N/A	N/A	N/A	N/A
Effect of economic/demographic (gains) or losses	(81,153)	269,250	(513,534)	(23,180)	(180,880)	N/A	N/A	N/A	N/A
Benefit payments/refunds of contributions	(1,777,737)	(1,581,571)	(1,377,436)	(1,364,783)	(1,356,309)	N/A	N/A	N/A	N/A
Net change in total pension liability	2,193,620	2,432,015	1,833,085	2,261,085	1,788,631	N/A	N/A	N/A	N/A
Total pension liability, beginning	41,428,989	38,996,974	37,163,889	34,902,804	33,114,173	N/A	N/A	N/A	N/A
Total pension liability, ending (a)	\$ 43,622,609	\$ 41,428,989	\$ 38,996,974	\$ 37,163,889	\$ 34,902,804	N/A	N/A	N/A	N/A

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

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

Year Ending December 31
- Continued -

<u>Fiduciary Net Position</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Employer contributions	\$ 886,780	\$ 880,449	\$ 904,499	\$ 904,537	\$ 871,231	N/A	N/A	N/A	N/A
Member contributions	424,587	445,958	422,381	418,491	397,563	N/A	N/A	N/A	N/A
Investment income net of investment expenses	(733,004)	5,008,673	2,393,691	183,973	2,091,949	N/A	N/A	N/A	N/A
Benefit payments/refunds of contributions	(1,777,737)	(1,581,571)	(1,377,436)	(1,364,783)	(1,356,309)	N/A	N/A	N/A	N/A
Administrative expenses	(30,382)	(25,980)	(25,994)	(23,219)	(24,113)	N/A	N/A	N/A	N/A
Other	(9,970)	(3,665)	(300,803)	(7,632)	(150,587)	N/A	N/A	N/A	N/A
Net change in fiduciary net position	(1,239,726)	4,723,864	2,016,338	111,367	1,829,734	N/A	N/A	N/A	N/A
Fiduciary net position, beginning	39,066,162	34,342,298	32,325,960	32,214,593	30,384,859	N/A	N/A	N/A	N/A
Fiduciary net position, ending (b)	37,826,436	39,066,162	34,342,298	32,325,960	32,214,593	N/A	N/A	N/A	N/A
Net pension liability/(asset), ending = (a) - (b)	\$ 5,796,173	\$ 2,362,827	\$ 4,654,676	\$ 4,837,929	\$ 2,688,211				
Fiduciary net position as a % of a total pension liability	86.71%	94.30%	88.06%	86.98%	92.30%				
Pensionable covered payroll	6,065,527	\$ 6,370,830	\$ 6,034,016	\$ 5,978,437	\$ 5,679,470				
Net pension liability as a % of covered payroll	95.56%	37.09%	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><u>Year Ending December 31</u></i>	<i><u>Actuarially Determined Contribution</u></i>	<i><u>Actual Employer Contribution</u></i>	<i><u>Contribution Deficiency (Excess)</u></i>	<i><u>Pensionable Covered Payroll ⁽¹⁾</u></i>	<i><u>Actual Contribution as a % of Covered Payroll</u></i>
2009	\$ 458,087	\$ 458,087	\$ -	\$ 4,712,832	9.7%
2010	526,561	526,561	-	4,813,173	10.9%
2011	724,582	724,582	-	4,859,707	14.9%
2012	777,450	777,450	-	5,189,919	15.0%
2013	875,276	875,276	-	5,543,232	15.8%
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%

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

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS**

Year Ending September 30

<u>Total OPEB Liability</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Service cost	\$ 207,127	\$ 194,585	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest	258,302	256,749	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of benefit terms	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Differences between expected and actual experience	4,103	(10,481)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of assumptions or other inputs	(18,163)	8,813	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments	<u>(403,588)</u>	<u>(389,873)</u>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total OPEB liability	47,781	59,793	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB liability, beginning	<u>7,931,529</u>	<u>7,871,736</u>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB liability, ending (a)	<u>\$ 7,979,310</u>	<u>\$ 7,931,529</u>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered payroll	\$ 6,282,441	\$ 5,966,999	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB liability as a % of covered payroll	127.01%	132.92%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

No assets are accumulated in a trust that meets the criteria in GASBS 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 AWARDS

For Year Ended September 30, 2019

<i><u>Federal Grantor/Pass-through Grantor/ Program Title</u></i>	<i><u>Federal CFDA Number</u></i>	<i><u>State Identifying Number</u></i>	<i><u>Federal Expenditures</u></i>
<i>U.S. Department of Homeland Security</i>			
Hazard mitigation	97.039	N/A	<u>\$ 3,567,333</u>
Reconciliation to federal grant revenue			
Prior year expenditures			<u>289,931</u>
Federal grant revenue			<u>\$ 3,857,264</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended September 30, 2019

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, 2019, 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.

NOTE D - SUB-RECIPIENTS OF FEDERAL AWARDS

Total amount provided to Sub-recipients of Federal Awards was \$0.

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 Commissioners
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, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Drainage District No. 7, Jefferson County, Texas's basic financial statements, and have issued our report thereon dated February 10, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Drainage District No. 7, Jefferson County, Texas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Drainage District No. 7, Jefferson County, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of Drainage District No. 7, Jefferson County, Texas's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Drainage District No. 7, Jefferson County, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 & Associates, P.C.
Certified Public Accountants and Consultants
Port Arthur, Texas

February 10, 2020



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

AICPA Private
Companies Practice Section

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

To the Commissioners
Drainage District No. 7, Jefferson County, Texas

Report on Compliance for Each Major Federal Program

We have audited Drainage District No. 7, Jefferson County, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Drainage District No. 7, Jefferson County, Texas' major federal programs for the year ended September 30, 2019. Drainage District No. 7, Jefferson County, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Drainage District No. 7, Jefferson County, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Drainage District No. 7, Jefferson County, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Drainage District No. 7, Jefferson County, Texas' compliance.

Opinion on Each Major Federal Program

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 programs for the year ended September 30, 2019.

Report on Internal Control over Compliance

Management of Drainage District No. 7, Jefferson County, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Drainage District No. 7, Jefferson County, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Drainage District No. 7, Jefferson County, Texas' 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 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

February 10, 2020

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For Year Ended September 30, 2019

A. Summary of Audit Results

1. The auditors' 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 auditors' 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 programs tested as major programs included:

<u><i>Federal Grantor/Pass-through Grantor/ Program Title</i></u>	<u><i>Federal CFDA Number</i></u>	<u><i>Federal Expenditures</i></u>
<i>U.S. Department of Homeland Security/ Department of Emergency Management</i>		
Hazard mitigation	97.039	\$ <u>3,567,333</u>

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

B. Findings - Financial Statements Audit

Current Year	<i>None</i>
Prior Year	<i>None</i>

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

Current Year	<i>None</i>
Prior Year	<i>None</i>

TEXAS SUPPLEMENTARY INFORMATION

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION
SERVICES AND RATES**

September 30, 2019

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**

- 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 X No _____

Is the District located within a city? Entirely _____ Partly X 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 X

ETJs in which District is located. N/A

Are Board members appointed by an office outside the District? Yes _____ No X

If yes, by whom? N/A

DRAINAGE DISTRICT NO. 7
Jefferson County, Texas

TEXAS SUPPLEMENTARY INFORMATION
GENERAL FUND EXPENDITURES
For Year Ended September 30, 2019

<i>Personnel expenditures (including benefits)*</i>	\$ 10,189,042
<i>Professional fees -</i>	
Auditing	19,000
Legal	43,719
Engineering	214,347
Consulting	119,918
<i>Purchased services for resale -</i>	
Bulk water and sewer service purchases	-
<i>Contracted services -</i>	
Bookkeeping	36,750
Appraisal district	260,115
Tax collector	24,858
Other contracted services	135,444
<i>Utilities</i>	46,876
<i>Repairs and maintenance</i>	396,833
<i>Administrative expenditures -</i>	
Office supplies	9,524
Insurance	228,806
Other administrative expenditures	127,076
<i>Capital outlay -</i>	
Capitalized assets	8,319,694
Expenditures not capitalized	1,953,661
<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>	-
	<hr/>
Total Expenditures	\$ 22,125,663

****Number of persons employed by the District***

<u>54</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, 2019

	<i>General Fund</i>			
<i>Taxes Receivable, Beginning of Year</i>				
2018 Original tax levy	\$	1,128,242		
Adjustments		25,799,714		
		(145,767)		
Total to be Accounted For		<u>26,782,189</u>		
 Tax collections -				
Current year		23,633,774		
Prior years (net refund)		137,040		
Total Collections		<u>23,770,814</u>		
 <i>Taxes Receivable, End of Year</i>				
	\$	<u>3,011,375</u>		
 <i>Taxes Receivable by Years</i>				
2018	\$	2,135,997		
2017		192,118		
2016		108,669		
2015		90,419		
2014		81,422		
Before 2014		<u>402,750</u>		
 <i>Taxes Receivable, End of Year</i>				
	\$	<u>3,011,375</u>		
 <i>Property Valuations</i>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land and improvements	\$ <u>10,751,232,380</u>	\$ <u>10,283,485,738</u>	\$ <u>10,170,614,563</u>	\$ <u>10,674,712,861</u>
 <i>Tax Rates Per \$100 Valuation</i>				
General Fund	\$ <u>.239850</u>	\$ <u>.199875</u>	\$ <u>.160545</u>	<u>.165305</u>
 <i>Original Levy</i>				
	\$ <u>25,799,714</u>	\$ <u>20,579,117</u>	\$ <u>16,328,413</u>	<u>17,645,621</u>
 <i>Percent of Taxes Collected to Taxes Levied</i>				
	<u>92.14%</u>	<u>99.05%</u>	<u>99.40%</u>	<u>95.86%</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION
LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS**
For Year Ended September 30, 2019

<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>
2020	\$ 815,000	\$ 601,738	\$ 1,416,738
2021	850,000	568,438	1,418,438
2022	885,000	533,738	1,418,738
2023	920,000	497,638	1,417,638
2024	960,000	460,038	1,420,038
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>\$ 16,180,000</u>	<u>\$ 5,085,573</u>	<u>\$ 21,265,573</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION
CHANGES IN GENERAL LONG-TERM DEBT**

For Year Ended September 30, 2019

	<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	\$ 16,960,000	\$ 16,960,000
Retirements during current year - Principal	<u>(780,000)</u>	<u>(780,000)</u>
Notes outstanding at end of current year	<u>\$ 16,180,000</u>	<u>\$ 16,180,000</u>
Retirements during current year - Interest	<u>\$ 637,538</u>	<u>\$ 637,538</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, 2019	\$	10,907
Average annual debt service payment (principal and interest) for remaining term of all debt	\$	1,417,705

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

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

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

For Five Years Ended September 30,

	<i>Amounts</i>		
	<i>2019</i>	<i>2018</i>	<i>2017</i>
<u>General Fund</u>			
<i>Revenues</i>			
Property taxes	\$ 23,948,730	\$ 20,520,585	\$ 16,376,893
Interest	213,398	41,924	31,710
Other	4,160,256	4,652,753	6,574,981
Total Revenues	<u>28,322,384</u>	<u>25,215,262</u>	<u>22,983,584</u>
<i>Expenditures</i>			
Salaries and wages	6,334,918	6,013,024	6,514,152
Maintenance, repairs, administrative and legal	5,517,390	5,763,812	5,584,976
Capital projects	10,273,355	10,896,862	18,686,582
Total Expenditures	<u>22,125,663</u>	<u>22,673,698</u>	<u>30,785,710</u>
<i>Excess Revenues (Expenditures)</i>	<u>\$ 6,196,721</u>	<u>\$ 2,541,564</u>	<u>\$ (7,802,126)</u>
<u>Debt Service Fund</u>			
<i>Revenues</i>			
Property taxes	\$ -	\$ -	\$ -
Interest	225	78	84
Total Revenues	<u>225</u>	<u>78</u>	<u>84</u>
<i>Expenditures</i>			
Administrative	750	750	750
Debt service, interest and fees	1,417,538	1,415,538	1,416,663
Total Expenditures	<u>1,418,288</u>	<u>1,416,288</u>	<u>1,417,413</u>
<i>Excess Revenues (Expenditures)</i>			
Operating transfers	<u>1,400,000</u>	<u>1,417,019</u>	<u>1,394,644</u>
<i>Excess Revenues (Expenditures)</i>	<u>\$ (18,063)</u>	<u>\$ 809</u>	<u>\$ (22,685)</u>

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

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

For Five Years Ended September 30,

		<i>Percent of Fund Total Revenues</i>				
<u>2016</u>	<u>2015</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 17,347,223	\$ 18,629,728	84.56%	81.38%	71.25%	61.89%	63.05%
55,611	81,855	.75	.17	0.14	0.20	0.28
10,625,267	11,778,941	14.69	18.45	28.61	37.91	36.67
<u>28,028,101</u>	<u>30,490,524</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
6,261,966	5,896,556	22.37	23.85	28.34	22.34	19.96
5,495,031	5,076,797	19.48	22.86	24.30	19.61	17.18
23,893,745	21,191,460	36.27	43.21	81.30	85.25	71.71
<u>35,650,742</u>	<u>32,164,813</u>	<u>78.12</u>	<u>89.92</u>	<u>133.94</u>	<u>127.20</u>	<u>108.85</u>
<u>\$ (7,622,641)</u>	<u>\$ (1,674,289)</u>	<u>21.88%</u>	<u>10.08%</u>	<u>(33.94%)</u>	<u>(27.20%)</u>	<u>(8.85%)</u>
\$ -	\$ -	N/A	N/A	N/A	N/A	N/A
203	175	N/A	N/A	N/A	N/A	N/A
<u>203</u>	<u>175</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
750	780	N/A	N/A	N/A	N/A	N/A
1,417,788	1,293,002	N/A	N/A	N/A	N/A	N/A
<u>1,418,538</u>	<u>1,293,782</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
1,417,788	1,345,000	N/A	N/A	N/A	N/A	N/A
<u>\$ (547)</u>	<u>\$ 51,393</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, 2019**

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

District business telephone number: (409) 985-4369

<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, 2019</i></u>	<u><i>Title at Year End</i></u>	<u><i>Resident of District</i></u>
<i>Board Members</i>				
Richard D. Beaumont 6649 Howe Groves, Texas 77619	(Elected) 5/16 - 5/20	\$ 4,800	Chairman	Yes
Lester Champagne 1620 Tallowood Nederland, Texas 77627	(Elected) 5/18 - 5/22	\$ 4,800	Vice-Chairman	Yes
Billy Joe Butler 2018 1 st Street Port Neches, Texas 77651	(Elected) 5/16 - 5/20	\$ 4,800	Secretary	Yes
James Gamble, Sr. 268 Linkwood Street Port Arthur, Texas 77640	(Elected) 5/16 - 5/20	\$ 4,800	Commissioner	Yes
Albert J. Moses, Jr. 217 Live Oak Lane Port Arthur, Texas 77642	(Elected) 5/18 - 5/22	\$ 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, 2019

- Continued -

<i>Name and Address</i>	<i>Term of Office Date Elected or Date Hired</i>	<i>Fees and Expenses Reimbursements September 30, 2019</i>	<i>Title at Year End</i>
Key Personnel			
Phil Kelley 5349 Whitaker Groves, Texas 77619		\$ 215,000	Manager
Consultants			
Richards, Rodriguez, Skeith, LLP 816 Congress Ave. #1200 Austin, Texas 78701		\$ 22,264	Legal Counsel
Charles E. Reed & Associates 3636 Professional Drive Port Arthur, Texas 77642		\$ 17,500	Auditor
Bob Shaw Consulting Engineers 4749 Twin City Hwy, Suite 305 Port Arthur, Texas 77642		\$ 76,800	Consultant
FMW, P.C. 1150 N. Eleventh Street Beaumont, Texas 77702-1207		\$ 40,150	Bookkeeping/ Accountant
Bradley, Steele & Pierce, LLP 3120 Central Mall Drive Port Arthur, Texas 77642		\$ 62,394	Legal Counsel
Sigma Engineers, Inc. 4099 Calder Ave. Beaumont, Texas 77706		\$ 38,738	Consultant
Dan Delich Consulting 2805 Oakland Hills Drive Plano, Texas 75025		\$ 37,889	Consultant

DRAINAGE DISTRICT NO. 7

Jefferson County, Texas

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

September 30, 2019

- Continued -

<i><u>Name and Address</u></i>	<i><u>Term of Office Date Elected or Date Hired</u></i>	<i><u>Fees and Expenses Reimbursements September 30, 2019</u></i>	<i><u>Title at Year End</u></i>
<i>Consultants (Continued)</i>			
LJA Engineering 2929 Briarpark, Suite 600 Houston, Texas 77042		\$ 2,071,370	Consultant
Hunton, Andrews, Kurth P O Box 405759 Atlanta, Georgia 30384-5759		\$ 43,214	Consultant
Ron Lewis & Associates 919 Congress Ave., Suite 1030 Austin, Texas 78701		\$ 14,000	Consultant
Ray Russo 4636 Lorraine Avenue Dallas, Texas 75209		\$ 22,060	Consultant