

**DRAINAGE DISTRICT NO. 3**  
**Jefferson County, Texas**

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**TOGETHER WITH**  
**INDEPENDENT AUDITORS' REPORT**



**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS**

	<u><b>Page</b></u>
<b><i>Independent Auditors' Report</i></b>	1 - 2
<b><i>Management's Discussion and Analysis</i></b>	3 - 7
<b><i>Basic Financial Statements</i></b>	
Statement of Net Position and Governmental Fund Balance Sheet	8
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Net Position	9
Statement of Fiduciary Net Position - Fiduciary Funds	10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Net Position to the Statement of Activities	12
<b><i>Notes to Financial Statements</i></b>	13 - 31
<b><i>Required Supplementary Information</i></b>	
Budgetary Comparison Schedule - General Fund	32
Schedule of Change in Net Pension Liability and Related Ratios	33 - 34
Schedule of Employer Contributions	35
<b><i>Texas Supplementary Information</i></b>	
Services and Rates	36 - 37
General Fund Expenditures	38
Temporary Investments <sup>1</sup>	-
Taxes Levied and Receivable	39
Long-Term Debt Service Requirements by Years <sup>1</sup>	-
Changes in General Long-Term Debt Service <sup>1</sup>	-
Comparative Schedule of Revenues and Expenditures - General Fund	40
Board Members, Key Personnel, and Consultants	41

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<sup>1</sup> Schedules have been omitted from the Texas Supplementary Information as the District has no bonds outstanding.



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H. B. FUNCHESS III, CPA  
(1932-1993)  
LARRY L. MILLS, CPA  
(Retired)

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Drainage District No. 3, Jefferson County, Texas

We have audited the accompanying financial statements of governmental activities and fiduciary fund of the Drainage District No. 3, Jefferson County, Texas (the District), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion 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. 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 auditors' 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 financial position of the governmental activities and fiduciary fund of the Drainage District No. 3, Jefferson County, Texas, as of September 30, 2017, 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 3 through 7 and 32 through 35 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 District's basic financial statements. The accompanying Texas Supplementary Information on pages 36 to 41 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Texas Supplementary Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***FMW, P.C.***

Beaumont, Texas  
January 17, 2018

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2017

As management of the Drainage District No. 3, 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, 2017. 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) Government-wide financial statements, 2) Fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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 fund, 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.

Fiduciary funds are used to report assets held in an agency capacity for others and cannot be used to support the District's activities. The Agency fund uses the accrual basis of accounting.

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

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Continued

***FINANCIAL HIGHLIGHTS***

- The net position for the District at September 30, 2017 was \$1,638,368.
- The District's net position decreased by \$26,470 for the year ended September 30, 2017.

***FINANCIAL ANALYSIS***

A portion of the District's total assets (16.7%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment). The District uses these assets to provide services to its citizens; consequently these assets are not available for future spending.

	<i>2017</i>	<i>2016</i>
<b><i>Assets</i></b>		
Current and other assets	\$ 1,375,161	\$ 1,373,619
Capital assets	275,879	306,597
Total Assets	\$ 1,651,040	\$ 1,680,216
<b><i>Deferred Outflows of Resources</i></b>		
Deferred outflows of resources - pension related	\$ 77,744	\$ 93,874
<b><i>Liabilities</i></b>		
Long-term liabilities	\$ 55,331	\$ 44,128
Other liabilities	735	330
Total Liabilities	\$ 56,066	\$ 44,458
<b><i>Deferred Inflows of Resources</i></b>		
Deferred inflows of resources - pension related	\$ 34,350	\$ 64,794
<b><i>Net Position</i></b>		
Invested in capital assets	\$ 275,879	\$ 306,597
Unrestricted	1,362,489	1,358,241
Total Net Position	\$ 1,638,368	\$ 1,664,838

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
- Continued -

The following provides a summary of the District's operations for the year ended September 30, 2017 with comparative totals for the year ended September 30, 2016.

	<i>2017</i>	<i>2016</i>
<b><i>Revenues</i></b>		
Current taxes	\$ 618,714	\$ 552,627
Delinquent taxes	11,648	16,907
Investment earnings	2,359	2,821
Other	13,666	
Total Revenues	646,387	572,355
<b><i>Expenses</i></b>		
Service operations	594,434	589,964
Depreciation	78,423	106,270
Total Expenses	672,857	696,234
Change in Net Position	(26,470)	(123,879)
Net position - beginning of year	1,664,838	1,788,717
Net position - end of year	\$ 1,638,368	\$ 1,664,838

***ANALYSIS OF CHANGES IN CAPITAL ASSETS AND LONG-TERM DEBT***

The District's investment in capital assets as of September 30, 2017, amounts to \$275,879 (net of accumulated depreciation). This investment in capital assets includes land, buildings, field equipment, office equipment, and furniture and equipment.

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

- Accumulated depreciation increased by \$72,169.



**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
- Continued -

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

	<u>2017</u>	<u>2016</u>
Land	\$ 5,540	\$ 5,540
Buildings	73,199	81,943
Field equipment	196,707	218,260
Office equipment	316	549
Furniture and equipment	<u>117</u>	<u>305</u>
Total	<u>\$ 275,879</u>	<u>\$ 306,597</u>

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

The District's long-term liabilities consisted of accrued vacation pay, sick leave, and other post-employment benefits (OPEB). More detailed information about the District's long-term liabilities is presented in the notes of the financial statements.

***THE BUDGET, ECONOMIC ENVIRONMENT, AND RATES***

The differences between the original and final budget were within the budget categories. No amounts were transferred between the separate budget categories.

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

- Salaries, wages, and fringe benefits were less than budgeted amounts due to not being at full employment capacity.
- Materials and supplies expense was less than budgeted amounts due to less fuel, materials and supplies needed and the reduction of fuel costs.
- The budget amount for miscellaneous services includes a contingency for attorney and engineering fees in case of emergency. There were no emergencies during the fiscal year and the actual amount was less than the budget amount.
- The budget amount for capital outlays includes a contingency for possible emergency repairs. There were no emergency repairs needed during the year.

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
- Continued

***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 Department of Finance at P.O. Box 120, Hamshire, Texas, U.S.A. 77622, or call (409) 243-3495.

***BASIC FINANCIAL STATEMENTS***

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

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND  
BALANCE SHEET**  
September 30, 2017

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<i>Assets</i>			
<b>Cash</b>			
Checking accounts	\$ 1,267,254	\$ -	\$ 1,267,254
Money market account	197	-	197
<b>Accounts Receivable</b>			
Delinquent taxes (net of allowance for estimated uncollectibles)	24,515		24,515
Other receivables	1,376		1,376
<b>Capital Assets</b>			
Land	-	5,540	5,540
Buildings	-	73,199	73,199
Field equipment	-	196,707	196,707
Office equipment	-	316	316
Furniture and equipment	-	117	117
<b>Other Assets</b>			
Net pension asset		81,819	81,819
Total Assets	\$ 1,293,342	\$ 357,698	\$ 1,651,040
 <u>Deferred Outflows of Resources</u>			
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources - pension related	\$	\$ 77,744	\$ 77,744

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

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND  
BALANCE SHEET**  
September 30, 2017

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 735	\$ -	\$ 735
Long-term liabilities			
Due within one year	-	25,202	25,202
Due after one year	-	30,129	30,129
Total Liabilities	735	55,331	56,066
 <b><u>Deferred Inflows of Resources</u></b>			
<b><i>Deferred Inflows of Resources</i></b>			
Deferred revenue - delinquent taxes receivable	24,515	(24,515)	
Deferred inflows of resources - pension related		34,350	34,350
Total Deferred Inflows of Resources	24,515	9,835	34,350
 <b><u>Fund Balances / Net Position</u></b>			
<b><i>Fund Balances</i></b>			
Committed for subsequent years' expenditures	389,450	(389,450)	-
Unassigned	878,642	(878,642)	-
Total Fund Balances	1,268,092	(1,268,092)	-
Total Liabilities and Fund Balances	\$ 1,293,342		
 <b><i>Net Position</i></b>			
Net investment in capital assets		275,879	275,879
Unrestricted		1,362,489	1,362,489
Total Net Position		\$ 1,638,368	\$ 1,638,368

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

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION**  
For Year Ended September 30, 2017

	<i>General Fund</i>	<i>Adjustments</i>	<i>Statement of Activities</i>
<b><i>Revenues</i></b>			
Current taxes	\$ 618,714	\$ -	\$ 618,714
Delinquent taxes	13,684	(2,036)	11,648
Investment earnings	2,359	-	2,359
Other	15,272	(1,606)	13,666
Total Revenues	650,029	(3,642)	646,387
<b><i>Expenditures / Expenses</i></b>			
Salaries and wages	222,352	2,023	224,375
Fringe benefits	245,393	5,344	250,737
Materials and supplies	51,802	-	51,802
Maintenance and utilities	34,082	-	34,082
Miscellaneous services	33,438	-	33,438
Capital outlay	49,351	(49,351)	-
Depreciation	-	78,423	78,423
Total Expenditures	636,418	36,439	672,857
Excess (Deficiency) of Revenues over Expenditures	13,611	(13,611)	
Change in Net Position		26,470	(26,470)
<b><i>Fund Balances / Net Position</i></b>			
Beginning of the year	1,254,481	410,357	1,664,838
End of the year	\$ 1,268,092	\$ 370,276	\$ 1,638,368

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

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
For Year Ended September 30, 2017

	<u><i>Trust Fund</i></u>
<i>Assets</i>	
Property and rights held under deferred compensation plan	\$ <u>17,948</u>
Total Assets	\$ <u><u>17,948</u></u>
<i>Liabilities</i>	
Amount to be provided for benefits	\$ <u>17,948</u>
Total Liabilities	<u>17,948</u>
<i>Net Position</i>	\$ <u><u>          </u></u>

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



**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**  
For Year Ended September 30, 2017

Governmental fund balances as reported on the balance sheet for governmental funds	\$ 1,268,092
<p>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.</p>	
Cost of capital assets, net of accumulated depreciation	275,879
<p>Long-term liabilities of the District's governmental activities are not reported in fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.</p>	
Compensated absences	(25,202)
Other post-employee benefit	(30,129)
<p>Deferred property tax revenue is recorded as a deferred inflow of resources in the governmental funds. However, that revenue should have been recognized when reported using full accrual.</p>	
Deferred property tax revenue	24,515
<p>Deferred Outflows / Inflows of resources related to Governmental Accounting Standard Board Pronouncement 68 and 71 reporting for pension assets / liabilities.</p>	
Differences between expected and actual earnings	62,026
Change of assumptions	4,114
Net pension asset	81,819
Differences between expected and actual expenses	(34,350)
Contributions subsequent to measurement date	<u>11,604</u>
Total net position as reported on the Statement of Net Position for governmental activities	\$ <u>1,638,368</u>

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

**DRAINAGE DISTRICT NO. 3**  
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, 2017

Net change in fund balances for total governmental funds	\$	13,611
<p>When capital assets that are to be used in governmental funds are purchased, those costs are reported as expenditures in the governmental funds. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives.</p>		
Current year depreciation expense		(78,423)
<p>Compensated absences and other post-employee benefits are not due and payable in the current period and, accordingly, are not reported as current period expenditures.</p>		
Compensated absences net of expenditures		(2,023)
Other post-employee benefits, net of expenditures		(5,344)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
Collections on prior year levies		(2,036)
Book value of disposed assets		(1,606)
<p>Governmental Accounting Standards Board Pronouncement 68 and 71 reporting for pension asset / liabilities require adjustments to Net Position that are not reported in the governmental funds.</p>		
Current year adjustment of pension expense		<u>49,351</u>
Change in net position of governmental activities	\$	<u>(26,470)</u>

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

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity -**

The District was created May 13, 1912, as recorded in Vol. 6, Page 159, of Minutes of Commissioners' Court of Jefferson County. The District is a political subdivision of the State of Texas, created primarily to prevent the flooding and overflow of lands within the District by improving rivers, creeks and streams.

The accounting and reporting policies of the District relating to the funds and account groups included in the accompanying basic 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 basic 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 appoints 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.

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.

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation (Continued) -**

The following fiduciary fund is also reported:

Trust Fund - This fund is established to account for rights and obligations related to an Internal Revenue Code Section 457 deferred compensation plan.

**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, expenditures related to compensated absences are recorded when paid.

**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 and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**DRAINAGE DISTRICT NO. 3**

Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**

- Continued -

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 cost. 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>
Buildings	15 to 20 years
Field equipment	5 to 10 years
Office equipment	5 to 10 years
Furniture and equipment	5 to 10 years

**F. 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. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted or as amended by the District. The Budgetary Comparison Schedule - General Fund presents a comparison of budgetary data to actual results.

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. 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. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are provided for in the subsequent year's budget. There were no encumbrances outstanding at September 30, 2017.

**H. Investments -**

Investments, principally deposits in money market accounts are stated at cost which approximates market.

**I. Net Position -**

Net position represents the difference between assets, plus deferred outflows of resources minus liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling 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. Retirement Plan -**

Financial reporting information pertaining to the District's participation in the Texas County and District Retirement System (TCDRS) were 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*.

**K. Compensated Absences -**

Vacation accrues on a monthly basis with the ability to carry-over one week to the ensuing year. At September 30, 2017, liabilities included \$7,185 of vacation pay. With the exception of sick leave accrued upon retirement, sick leave does not vest and, accordingly, employees can be paid sick leave only when sick. Upon retirement, employees with 10 years or more of service can be paid up to a maximum of 90 days accrued sick leave. The liability for accumulated sick leave at September 30, 2017, was \$18,017.

**L. 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.

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. 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.

**N. Adjustments -**

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

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

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

Deferred Outflows / Inflows of Resources - GASB 68 and 71 requires adjustments to Net Position for pension related assets / liabilities. These adjustments are not included in governmental funds.

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

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 do not require (or provide) the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.

Deferred Outflows / Inflows of Resources - Change in net pension asset / liability and adjustments to pension expense are not reported as expenditures in governmental funds.

**O. Fund Balances - Governmental Funds -**

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

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

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

**DRAINAGE DISTRICT NO. 3**

Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**

- Continued -

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**O. Fund Balances - Governmental Funds - (Continued)**

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.

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

**P. Date of Management's Review -**

Management has evaluated subsequent events through January 17, 2018, the date the financial statements were available to be issued.

**NOTE 2 - CASH**

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 - Dallas Branch 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 \$1,267,451 and the bank balance was \$1,331,365. All demand deposits as of the balance sheet date were entirely insured by federal depository coverage and pledged securities.



**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 2 - CASH (Continued)**

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

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

Due to low interest rates, the District does not have any investments as of September 30, 2017. All of the District's funds are held in interest-bearing demand deposit accounts and a money market account. 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 collected by the Jefferson County Tax Collector. The tax rate for 2017 has been set at \$.331263 per \$100 of appraised property value and the tax rate for 2016 was set at \$.331263 per \$100 of appraised property value. District property tax revenues are recognized when actually received.

Property taxes receivable as of September 30, 2017, were comprised of the following -

<u>Year of Levy</u>	<u>General Fund</u>
2017	\$ 20,754
2016	12,698
2015	6,473
2014	6,331
2013	6,333
Before 2013	<u>31,794</u>
Total property taxes receivable	84,383
Less: Allowance for uncollectibles	<u>(59,868)</u>
	<u>\$ 24,515</u>

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 4 - CAPITAL ASSETS**

Activity for capital assets is summarized below -

	<i>Balance</i>	<u><i>Additions</i></u>	<u><i>Deletions</i></u>	<i>Balance</i>
Land	\$ 5,540	\$ -	\$ -	\$ 5,540
Buildings	139,143	-	-	139,143
Field equipment	1,081,540	49,351	(7,900)	1,122,991
Office equipment	17,850	-	-	17,850
Furniture and equipment	11,975	-	-	11,975
	<u>\$ 1,256,048</u>	<u>\$ 49,351</u>	<u>\$ (7,900)</u>	<u>\$ 1,297,499</u>
Accumulated depreciation	<u>\$ 949,451</u>	<u>\$ 78,423</u>	<u>\$ (6,254)</u>	<u>\$ 1,021,620</u>

**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 10 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 80 or more. Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the 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.

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 5 - RETIREMENT PLAN (Continued)**

**Funding Policy -**

The employer has elected the annually determined contribution rate (variable-rate) plan under the 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 rate contributed for the months of the accounting year in 2017 was 6.87%, and 7.34% for the months of the accounting year in 2016. The deposit rate payable by the employee members for the months of the accounting year in both 2017 and 2016 was 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, 2016 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2016 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 3.0 percent.

For the employer's accounting year ended September 30, 2017, the annual pension contribution for the TCDRS plan by its employees was \$15,191 and the employer cost was \$15,135.

**Net Pension Liability / (Asset) -**

	<i>December 31, 2015</i>	<i>December 31, 2016</i>
Total pension liability	\$ 1,451,663	\$ 1,495,964
Fiduciary net position	1,543,920	1,577,783
Net pension liability/(asset)	(92,257)	(81,819)
Fiduciary net position as a % of total pension liability	106.36%	105.47%
Pensionable covered payroll <sup>(1)</sup>	\$ 188,548	\$ 187,735
Net pension liability/(asset) as a % of covered payroll	(48.93%)	(43.58%)

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:

*Note: Rounding differences may exist above or in other tables in this report*

<sup>(1)</sup> *Payroll is calculated based on contributions as reported to TCDRS*

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 5 - RETIREMENT PLAN (Continued)**

**Discount Rate -**

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

<sup>(2)</sup> 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.

<sup>(3)</sup> 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 -**

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 - December 31, 2012, except where required to be different by GASB 68. Please see the employer summary actuarial report as of December 31, 2016 for further details.

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

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	I <sup>(1)</sup>
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	
Salary Increases	
Investment Rate of Return	

**DRAINAGE DISTRICT NO. 3**

Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - RETIREMENT PLAN (Continued)**

**Actuarial Methods and Assumptions Used for GASB Calculations -**

Cost-of-Living Adjustments	Cost-of-Living Adjustments for Jefferson County Drainage District No. 3 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 New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	
Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA, and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	The RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

<sup>(1)</sup> *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 2017 information for a 7-10 year time horizon.

**DRAINAGE DISTRICT NO. 3**

Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - RETIREMENT PLAN (Continued)**

**Long-term Expected Rate of Return - (Continued)**

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2009 - December 31, 2012 for more details.

<i>Asset Class</i>	<i>Benchmark</i>	<i>Target<sup>(1)</sup> Allocation</i>	<i>Geometric Real Rate of Return (Expected minus Inflationary)<sup>(2)</sup></i>
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	1.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>		1.70%
Global Equities	MSCI World (net) Index		1.00%
International Equities- Developed	MSCI World Ex USA (net) Index		1.70%
International Equities- Emerging	MSCI EM Standard (net) Index		1.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index		1.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index		3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index		1.83%
Direct Lending	S&P/LSTA Leveraged Loan Index		1.15%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>		6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>		7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index		3.85%

<sup>(1)</sup> Target asset allocation adopted at the April 2017 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0% per Cliffwater's 2017 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

**DRAINAGE DISTRICT NO. 3**

Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**

- Continued

**NOTE 5 - RETIREMENT PLAN (Continued)**

**Changes in Net Pension Liability / (Asset) -**

	<i>Total Pension Liability</i> <u>(a)</u>	<i>Increases / Decreases Fiduciary Net Position</i> <u>(b)</u>	<i>Net Pension Liability/(Asset)</i> <u>(a) - (b)</u>
Balances as of December 31, 2015	\$ 1,451,663	\$ 1,543,920	\$ (92,257)
Changes for the year:			
Service cost	24,428	-	24,428
Interest on total pension liability <sup>(1)</sup>	114,898	-	114,898
Effect of plan changes <sup>(2)</sup>	-	-	-
Effect of economic/demographic gains or losses	-	-	(2,931)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	(1,731)	-
Benefit payments	-	(90,363)	-
Administrative expenses	-	(1,236)	1,236
Member contributions	-	13,141	(13,141)
Net investment income	-	114,052	(114,052)
Employer contributions	-	13,780	(13,780)
Other <sup>(3)</sup>	-	(13,780)	13,780
Balances as of December 31, 2016			

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

<sup>(2)</sup> No change in plan valued.

<sup>(3)</sup> Relates to allocation of system-wide items.

**Sensitivity Analysis -**

The following presents the net pension liability of the county/district, calculated using the discount rate of 8.10%, as well as what the Jefferson County Drainage District No. 3 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.

	<i>1% Decrease</i> 7.10%	<i>Current Discount Rate</i> 8.10%	<i>1% Increase</i> 9.10%
Total pension liability	\$ 1,640,870	\$ 1,495,964	\$ 1,371,157
Fiduciary net position	1,577,783	1,577,783	1,577,783
Net pension liability / (asset)	<u>\$ 63,087</u>	<u>\$ (81,819)</u>	<u>\$ (206,626)</u>

**DRAINAGE DISTRICT NO. 3**

Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**

- Continued -

**NOTE 5 - RETIREMENT PLAN (Continued)**

*Pension Expense / Income -*

	<i>January 1, 2016 to December 31, 2016</i>	
Service cost	\$	24,428
Interest on total pension liability <sup>(1)</sup>		114,898
Effect of plan changes		
Administrative expenses		1,236
Member contributions		(13,141)
Expected investment return net of investment expenses		(121,873)
Recognition of deferred inflows/outflows of resources		
Recognition of economic/demographic gains or losses		(33,374)
Recognition of assumption changes or inputs		4,114
Recognition of investment gains or losses		21,200
Other <sup>(2)</sup>		13,780
Pension expense / income	\$	<u>11,268</u>

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

<sup>(2)</sup> Relates to allocation of system-wide items.

**Deferred Outflows of Resources -**

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 34,350	\$ -
Changes of assumptions	-	4,114
Net difference between projected and actual earnings	-	62,026
Contributions made subsequent to measurement date	-	11,604
	<u>\$ 34,350</u>	<u>\$ 77,744</u>

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:



**DRAINAGE DISTRICT NO. 3**  
 Jefferson County, Texas  
**NOTES TO FINANCIAL STATEMENTS**  
 Continued

**NOTE 5 - RETIREMENT PLAN (Continued)**

**Deferred Outflows of Resources - (Continued)**

Year ended December 31:

2017	\$	3,544
2018		20,223
2019		18,062
2020		1,565
2021		-
Thereafter <sup>(1)</sup>		-

<sup>(1)</sup> 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 long-term debt transactions of the District for the year ended September 30, 2017 -

	<u>Beginning Balance</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Ending</u>	<u>Due Within</u>
Compensated absences	\$ 23,179	\$ 19,956	\$ (17,933)	\$ 25,202	
OPEB obligation	20,949	54,604	(45,424)	30,129	
	<u>\$ 44,128</u>	<u>\$ 74,560</u>	<u>\$ (63,357)</u>	<u>\$ 55,331</u>	<u>\$ 25,202</u>

The obligations under compensated absences and other post-employment benefit (OPEB) obligations are liquidated by the general fund.

**NOTE 7 - 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.

**DRAINAGE DISTRICT NO. 3**

Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**

Continued -

***NOTE 8 - CONCENTRATION OF RISK***

A major portion of the District's revenues is dependent upon property taxes from two taxpayers. For the year ended September 30, 2017, these taxes represented approximately 29% of total revenues.

***NOTE 9 - DEFERRED COMPENSATION PLAN***

Employees of the District may participate in a defined contribution plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The Jefferson County Drainage District 3 Deferred Compensation Plan is available to all employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by an unrelated financial institution (Nationwide Retirement Solutions, Inc.). Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the District subject only to the claims of the District's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the District, and each participant's rights are equal to his or her share of the fair market value of the plan assets. The District believes that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise.

As part of its fiduciary role, the District has an obligation of due care in selecting the third-party administrator. In the opinion of the District's management, the District has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

Since the employer makes contributions to the TCDRS plan they do not contribute to this plan. Employee contributions were \$480 for the year ended September 30, 2017.

***NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS***

The District provides certain post-employment health care benefits to eligible retired employees and their spouses. At September 30, 2017, there were six (6) retirees who were eligible for these benefits.

Eligible retirees and their spouses receive medical, prescription drug and dental benefits until eligible for Medicare.

To be eligible for this benefit a retiree must be age 60 and above with 10 or more years of service, 30 years service regardless of age, or the sum of their age and years of service equals 80 or more.

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Funding Policy -**

The retiree medical plan is operated on a Pay-As-You-Go basis. There are no assets that have been segregated and restricted to provide for retiree medical benefits. For the year ended September 30, 2017, the cost of retiree health benefits, recorded on a pay-as-you-go basis was \$45,424.

**Annual OPEB Cost and Net OPEB Obligation -**

The annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation.

	<i>2017</i>
Determination of Net OPEB Obligation	
Annual required contribution	\$ 54,999
Interest on net OPEB obligations	460
Adjustment to annual required contribution	(855)
Annual OPEB cost	54,604
Contributions made	(45,424)
Increase in Net OPEB Obligation	9,180
Net OPEB Obligation - beginning of year	20,949
Net OPEB Obligation - end of year	\$ 30,129

The end of year net OPEB is shown as a non-current liability on the Balance Sheet.

**Trend Information -**

<i>Accounting Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Actual Employer Contributions</i>	<i>Percentage Contributed</i>	<i>Net Ending OPEB Obligation</i>
9/30/15	\$ 63,014	\$ 56,649	89.9%	\$ 15,345
9/30/16	54,604	49,000	89.74%	20,949
9/30/17	54,604	45,424	83.19%	30,129

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

**NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Funded Status and Funding Progress -**

The following schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE OTHER POST-EMPLOYMENT BENEFITS FOR THE**  
**EMPLOYEES OF DRAINAGE DISTRICT NO. 3, JEFFERSON COUNTY, TEXAS**

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b - a)</i>	<i>Funded Ratio (a / b)</i>	<i>Annual Covered Payroll (c)</i>	<i>UAAL as a Percentage of Covered Payroll [(b - a) / c]</i>
10/1/14	\$ -	\$ 854,731	\$ 854,731	-%	\$ -	-%
10/1/15*	-	836,797	836,797	-%	-	-%
10/1/16	-	842,401	842,401	-%	-	-%

\*Actuarial valuations are performed every three years; the last update was in 2015 and the next will be in 2018.

**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 actuarial cost method used to determine the OPEB obligation is computed using the Projected Unit Credit Method which consists of the following cost components:

1. The Normal Cost is the Actuarial Present Value of benefits allocated to the valuation year.
2. The Actuarial Liability is the Actuarial Present Value of benefits accrued as of the valuation date.
3. Valuation Assets are equal to the market value of assets as of the valuation date, if any.
4. Unfunded Actuarial Liability is the difference between the Actuarial Liability and the Valuation Assets.

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**NOTES TO FINANCIAL STATEMENTS**  
- Continued -

***NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (Continued)***

***Actuarial Methods and Assumptions - (Continued)***

Projection of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation for the Plan used the unit credit actuarial cost method. The actuarial assumptions included a discount rate of 3.0%, mortality table, termination rates, retirement rates, participation, health care cost trend rates, and retiree premiums. The UAAL is being amortized as a level dollar amount over 25 years, as permissible under GASB Statement No. 45.

***REQUIRED SUPPLEMENTARY INFORMATION***

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**

For Year Ended September 30, 2017

	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<i>Variance</i> <i>(Negative)</i>
<b>Revenues</b>				
Current taxes	\$ 618,714	\$		15,864
Delinquent taxes	13,684			3,684
Investment earnings	2,359			1,159
Other	<u>15,272</u>	-		<u>15,272</u>
Total Revenues	<u>650,029</u>			<u>35,979</u>
<b>Expenditures</b>				
Salaries and wages	222,352	282,807	282,807	60,455
Fringe benefits	245,393	346,250	346,250	100,857
Materials and supplies	51,802	181,550	181,550	129,748
Maintenance and utilities	34,082	66,850	66,850	32,768
Miscellaneous services	33,438	132,400	132,400	98,962
Capital outlay	<u>49,351</u>	<u>418,500</u>	<u>418,500</u>	<u>369,149</u>
Total Expenditures	<u>636,418</u>	<u>1,428,357</u>	<u>1,428,357</u>	<u>791,939</u>
Excess (Deficiency) of Revenues over Expenditures	13,611	<u>\$ (814,307)</u>	<u>\$ (814,307)</u>	<u>\$ 827,918</u>
<b>Fund Balance / Net Position</b>				
Beginning of the year	<u>1,254,481</u>			
End of the year	<u>\$ 1,268,092</u>			

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

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

Year Ending December 31

<i><u>Total Pension Liability</u></i>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Service cost	\$ 24,428	\$ 18,068	\$ 29,638	N/A	N/A	N/A	N/A	N/A	N/A
Interest on total pension liability	114,898	119,534	118,739	N/A	N/A	N/A	N/A	N/A	N/A
Effect of plan changes		(1,382)		N/A	N/A	N/A	N/A	N/A	N/A
Effect of assumption changes or inputs	-	12,343	-	N/A	N/A	N/A	N/A	N/A	N/A
Effect of economic / demographic (gains) or losses	(2,931)	(97,191)	(16,768)	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments /refunds of contributions	<u>(92,094)</u>	<u>(120,068)</u>	<u>(122,886)</u>	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total pension liability	44,301	(68,696)	8,723	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, beginning	<u>1,451,663</u>	<u>1,520,359</u>	<u>1,511,636</u>	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, ending (a)	<u>\$ 1,495,964</u>	<u>\$ 1,451,663</u>	<u>\$ 1,520,359</u>	N/A	N/A	N/A	N/A	N/A	N/A



**DRAINAGE DISTRICT NO. 3**  
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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employer contributions	\$ 13,780	\$ 124,078	\$ 20,635	N/A	N/A	N/A	N/A	N/A	N/A
Member contributions	13,141	13,198	11,724	N/A	N/A	N/A	N/A	N/A	N/A
Investment income net of investment expenses	114,052	42,718	106,665	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments/refunds of contributions	(92,094)	(120,068)	(122,886)	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expenses	(1,236)	(1,113)	(1,189)	N/A	N/A	N/A	N/A	N/A	N/A
Other	(13,780)	(76,594)	11,674	N/A	N/A	N/A	N/A	N/A	N/A
Net change in fiduciary net position	33,863	(17,781)	26,623	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, beginning	1,543,920	1,561,701	1,535,078	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, ending (b)	\$ 1,577,783	\$ 1,543,920	\$ 1,561,701	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability/asset, ending = (a) - (b)	\$ (81,819)	\$ (92,257)	\$ (41,342)	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position as a % of a total pension liability	105.47%	106.36%	102.72%	N/A	N/A	N/A	N/A	N/A	N/A
Pensionable covered payroll		\$							
Net pension liability as a % of covered payroll	(43.58%)	(48.93%)	(24.68%)	N/A	N/A	N/A	N/A	N/A	N/A

*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. 3**  
Jefferson County, Texas

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ending December 31

<u>Year Ending December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll <sup>(1)</sup></u>	<u>Actual Contribution as a % of Covered Payroll</u>
2007	\$ 8,236	\$ 16,951	\$ (8,715)	\$ 199,428	8.5%
2008	6,271	18,834	(12,563)	221,577	8.5%
2009	17,996	23,390	(5,394)	275,172	8.5%
2010	19,933	19,933	-	205,069	9.7%
2011	18,424	18,424		189,157	9.7%
2012	18,856	18,856		179,407	10.5%
2013	26,377	26,377		218,174	12.1%
2014	20,635	20,635		167,490	12.3%
2015	24,078	124,078	(100,000)	188,548	65.8%
2016	13,780	13,780	-	187,735	7.3%

<sup>(1)</sup> Payroll is calculated based on contributions as reported to TCDRS.

*TEXAS SUPPLEMENTARY INFORMATION*

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION**  
**SERVICES AND RATES**  
September 30, 2017

**1. Services provided by the District:**

<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"/> Fire Protection	<input type="checkbox"/> Security
<input type="checkbox"/> Solid Waste/Garbage	<input checked="" type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
Participates in joint venture, regional system and/or wastewater service (other than emergency Interconnect)		
Other (Specify): _____		

**2. Retail service provides**     N/A

**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	
≤ ¾"			x 1.0	
1"			x 2.5	
1 ½"			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. 3**  
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  No

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

City in which District is located. N/A

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

ETJs in which District is located. N/A

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

If yes, by whom? Jefferson County Commissioners Court

**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION**  
**GENERAL FUND EXPENDITURES**  
For Year Ended September 30, 2017

<i>Personnel expenditures (including benefits)*</i>	\$ 467,745
<i>Professional fees -</i>	
Auditing	13,904
Legal	-
Engineering	-
Financial advisor	-
<i>Purchased services for resale -</i>	
Bulk water and sewer service purchases	-
<i>Contracted services -</i>	
Bookkeeping	-
General manager	-
Appraisal district	6,850
Tax collector	1,712
Other contracted services	-
<i>Utilities</i>	10,727
<i>Repairs and maintenance</i>	73,664
<i>Administrative expenditures -</i>	
Directors' fees	-
Office supplies	751
Insurance	6,534
Other administrative expenditures	2,387
<i>Capital outlay -</i>	
Capitalized assets	49,351
Expenditures not capitalized	-
<i>Tap connection expenditures</i>	-
<i>Solid waste disposal</i>	-
<i>Fire fighting</i>	-
<i>Parks and recreation</i>	-
<i>Other expenditures</i>	2,793
Total Expenditures	\$ 636,418

<i>* Number of persons employed by the District</i>	<u>5</u> Full-Time <u>3</u> Directors
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**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

**TEXAS SUPPLEMENTARY INFORMATION**  
**TAXES LEVIED AND RECEIVABLE**  
For Year Ended September 30, 2017

	<u>General Fund</u>			
<i>Taxes Receivable, Beginning of Year</i>	\$ 73,893			
2016 Original tax levy	635,214			
Adjustments	(4,546)			
Total to be Accounted For	<u>704,561</u>			
Tax collections -				
Current year				611,919
Prior years				8,259
Total Collections				<u>620,178</u>
<i>Taxes Receivable, End of Year</i>	<u>\$ 84,383</u>			
<i>Taxes Receivable by Years</i>				
2017	\$ 20,754			
2016	12,698			
2015	6,473			
2014	6,332			
2013	6,333			
Before 2012	<u>31,793</u>			
<i>Taxes Receivable, End of Year</i>	<u>\$ 84,383</u>			
<i>Property Valuations</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 191,563,768	\$ 170,767,295	\$ 194,635,544	\$ 209,899,694
<i>Tax Rates Per \$100 Valuation</i>				
General Fund	\$ .331263	\$ .331263	\$ .331263	\$ .331263
<i>Original Levy</i>	\$ 635,214	\$ 566,667	\$ 644,948	\$ 695,739
<i>Percent of Taxes Collected to Taxes Levied</i>	<u>97.63%</u>	<u>98.41%</u>	<u>97.43%</u>	<u>96.63%</u>

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



**DRAINAGE DISTRICT NO. 3**  
Jefferson County, Texas

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

For Five Years Ended September 30,

<i>General Fund</i>	<i>2017</i>	<i>2016</i>	<i>Amounts</i> <i>2015</i>
<i>Revenues</i>			
Property taxes	\$ 632,398	\$	662,080
Interest	2,359		3,142
Other	15,272	-	1,097
Total Revenues	650,029	570,964	666,319
<i>Expenditures</i>			
Salaries and wages	222,352	186,439	175,882
Fringe benefits	245,393	342,505	232,556
Materials and supplies	51,802	47,553	44,825
Maintenance and utilities	34,082	24,533	24,590
Miscellaneous services	33,438	38,948	34,400
Capital outlay	-	-	-
Total Expenditures		639,978	
<i>Excess Revenues (Expenditures)</i>	\$ 13,611	\$ (69,014)	\$ 72,558

**DRAINAGE DISTRICT NO. 3**  
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>2014</u>	<u>2013</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 741,959	\$ 734,072	97.29	99.51	99.37	99.38%	99.60%
2,535	2,287	.36				.31
2,103	626	2.35		.16	.28	.09
<u>746,597</u>	<u>736,985</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
181,260	213,527	34.21	32.65	26.40	24.28	28.97
249,303	265,960	37.75	59.99	35.18	33.39	36.09
55,315	71,206	7.97	8.33	6.73	7.41	9.66
34,609	15,531	5.24	4.30	3.69	4.64	2.11
34,580	31,438	5.14		5.16	4.63	4.27
87,601		7.59		12.23	11.73	-
<u>642,668</u>	<u>597,662</u>	<u>97.90</u>		<u>89.39</u>	<u>86.08</u>	<u>81.10</u>
\$ 103,929	\$ 139,323	(2.10%)	(12.09%)	10.61%	13.92%	18.90%

**DRAINAGE DISTRICT NO. 3**

Jefferson County, Texas

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

September 30, 2017

Complete District mailing address: P. O. Box 120, Hamshire, Texas 77622

District business telephone number: (409) 243-3495

<u>Name and Address</u>	<u>Term of Office Date Elected or Date Hired</u>	<u>Fee and Expense Reimbursements September 30, 2017</u>	<u>Title at Year End</u>	<u>Resident of District</u>
<b>Board Members</b>				
LeRoy McCall, Jr. 25548 Hwy 124 Hamshire, Texas 77622	(Appointed) 04/14 - 04/18	\$ 6,000	Chairman	Yes
015968 Gallier Rd. Hamshire, Texas 77622	(Appointed) 04/14 - 04/18	\$ 6,000	Secretary	Yes
Joel E. Levingston, Jr. 7744 Levingston Ranch Rd. Beaumont, Texas 77705	(Appointed) 11/16 - 11/20	\$ 6,000	r	Yes

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

**Key Personnel**

Fred Folsom 19779 Englin Road Winnie, Texas 77665	\$ 63,431	Superintendent
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**Consultants**

FMW, P.C. 1150 North Eleventh Street Beaumont, Texas 77702	\$ 13,904	Auditor
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