

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2024

McCALL GIBSON SWEDLUND BARFOOT ELLIS PLLC
Certified Public Accountants

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McCall Gibson Swedlund Barfoot Ellis PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Galveston County Drainage District No. 2
Galveston County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Drainage District No. 2 (the "District") as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund, the Schedule of Changes in Net Pension Asset/Liability and Related Ratios, and the Schedule of District Contributions - Pension be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
Galveston County Drainage District No. 2

Supplementary 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 supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot Ellis PLLC

McCall Gibson Swedlund Barfoot Ellis PLLC
Certified Public Accountants
Houston, Texas

February 13, 2025

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

Management’s discussion and analysis of the financial performance of Galveston County Drainage District No. 2 (the “District”) provides an overview of the District’s financial activities for the fiscal year ended September 30, 2024. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District’s annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position presents information that includes all of the District’s assets, liabilities, deferred inflows of resources, and deferred outflows of resources with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District’s net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for maintenance tax revenues, operating costs and general expenditures. The Special Revenue Fund accounts for activities related to the various drainage facilities throughout the District.

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position, and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI") and other supplementary information. A budgetary comparison schedule is included as RSI for the General Fund. The report also includes the required pension plan schedules as RSI.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,762,028 as of September 30, 2024. A portion of the District's net position reflects its investment in capital assets which consist of land and easements, buildings, machinery, equipment and vehicles.

The following is a comparative analysis of government-wide changes in net position:

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2024	2023	Change Positive (Negative)
Current and Other Assets	\$ 3,739,763	\$ 3,128,881	\$ 610,882
Capital Assets (Net of Accumulated Depreciation)	1,873,140	2,008,032	(134,892)
Total Assets	\$ 5,612,903	\$ 5,136,913	\$ 475,990
Deferred Outflows of Resources	\$ 238,462	\$ 327,592	\$ (89,130)
Current and Other Liabilities	\$ 46,470	\$ 97,132	\$ 97,132
Long-Term Liabilities	46,470	124,737	78,267
Total Liabilities	\$ 46,470	\$ 221,869	\$ 175,399
Deferred Inflows of Resources	\$ 42,867	\$ 72,832	\$ 29,965
Net Position:			
Investment in Capital Assets	\$ 1,873,140	\$ 2,008,032	\$ (134,892)
Restricted - Special Revenue Funds	1,312,096	1,176,000	136,096
Unrestricted	2,576,792	1,985,772	591,020
Total Net Position	\$ 5,762,028	\$ 5,169,804	\$ 592,224

The following table provides a summary of the District's operations for the years ended September 30, 2024, and September 30, 2023. The District's net position increased by \$592,224.

	Summary of Changes in the Statement of Activities		
	2024	2023	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,468,373	\$ 1,451,039	\$ 17,334
Impact Fees	76,842	132,025	(55,183)
Other Revenues	330,548	53,582	276,966
Total Revenues	\$ 1,875,763	\$ 1,636,646	\$ 239,117
Expenses for Services	1,283,539	1,425,370	141,831
Change in Net Position	\$ 592,224	\$ 211,276	\$ 380,948
Net Position, Beginning of Year	5,169,804	4,958,528	211,276
Net Position, End of Year	\$ 5,762,028	\$ 5,169,804	\$ 592,224

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2024, were 3,401,738, an increase of \$581,738 from the prior year.

The General Fund fund balance increased by \$445,642, primarily due to property tax revenues and investment revenues exceeding operating and capital expenditures.

The Special Revenue Fund fund balance increased by \$136,096, primarily due to impact fee revenues and investment revenues exceeding expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year, and amended the budget to increase anticipated tax collection fees. Actual revenues were \$204,191 more than budgeted revenues and actual expenditures were \$651,201 less than budgeted expenditures which resulted in a positive budget versus actual variance of \$855,392. See the budget to actual comparison for more information.

CAPITAL ASSETS

Capital assets as of September 30, 2024, total \$1,873,140 (net of accumulated depreciation) and include land and easements, buildings, machinery, equipment and vehicles. Capital asset additions during the current fiscal year included the purchase of a vehicle.

Capital Assets At Year-End			
	2024	2023	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Easements	\$ 407,620	\$ 407,620	\$
Capital Assets Subject to Depreciation:			
Building and Improvements	170,929	181,526	(10,597)
Land Improvements	307,719	314,116	(6,397)
Furniture and Equipment	929,480	1,084,498	(155,018)
Vehicles	57,392	20,272	37,120
Total Net Capital Assets	\$ 1,873,140	\$ 2,008,032	\$ (134,892)

LONG-TERM DEBT ACTIVITY

As of September 30, 2024, the District had no outstanding bond debt.

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Galveston County Drainage District No. 2, P. O. Box 624, La Marque, TX 77568-0624.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2024

	General Fund	Special Revenue Funds
ASSETS		
Cash	\$ 49,370	\$ 210
Investments	2,220,634	1,177,994
Receivables:		
Property Taxes	139,937	
Penalty and Interest on Delinquent Taxes		
Due from Other Funds		153,188
Net Pension Asset		
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 2,409,941	\$ 1,331,392
DEFERRED OUTFLOWS OF RESOURCES		
Pension Plan Charges	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,409,941	\$ 1,331,392

The accompanying notes to the financial
statements are an integral part of this report.

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 49,580	\$	\$ 49,580
3,398,628		3,398,628
139,937		139,937
	95,218	95,218
153,188	(153,188)	
	56,400	56,400
	407,620	407,620
	<u>1,465,520</u>	<u>1,465,520</u>
<u>\$ 3,741,333</u>	<u>\$ 1,871,570</u>	<u>\$ 5,612,903</u>
<u>\$ -0-</u>	<u>\$ 238,462</u>	<u>\$ 238,462</u>
<u>\$ 3,741,333</u>	<u>\$ 2,110,032</u>	<u>\$ 5,851,365</u>

The accompanying notes to the financial statements are an integral part of this report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2024

	General Fund	Special Revenue Funds
LIABILITIES		
Accounts Payable	\$ 46,470	\$
Due to Other Funds	133,892	19,296
TOTAL LIABILITIES	\$ 180,362	\$ 19,296
 DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 139,937	\$
Pension Plan Charges		
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 139,937	\$ -0-
 FUND BALANCES		
Restricted for Special Revenue Funds	\$	\$ 1,312,096
Assigned to 2025 Budget Deficit	43,420	
Unassigned	2,046,222	
TOTAL FUND BALANCES	\$ 2,089,642	\$ 1,312,096
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 2,409,941	\$ 1,331,392
 NET POSITION		
Investment in Capital Assets		
Restricted for Special Revenue Funds		
Unrestricted		
TOTAL NET POSITION		

The accompanying notes to the financial statements are an integral part of this report.

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 46,470	\$	\$ 46,470
<u>153,188</u>	<u>(153,188)</u>	<u> </u>
\$ <u>199,658</u>	\$ <u>(153,188)</u>	\$ <u>46,470</u>
\$ 139,937	\$ (139,937)	\$
<u> </u>	<u>42,867</u>	<u>42,867</u>
\$ <u>139,937</u>	\$ <u>(97,070)</u>	\$ <u>42,867</u>
\$ 1,312,096	\$ (1,312,096)	\$
43,420	(43,420)	
<u>2,046,222</u>	<u>(2,046,222)</u>	<u> </u>
\$ <u>3,401,738</u>	\$ <u>(3,401,738)</u>	\$ <u>- 0 -</u>
<u>\$ 3,741,333</u>		
	\$ 1,873,140	\$ 1,873,140
	1,312,096	1,312,096
	<u>2,576,792</u>	<u>2,576,792</u>
	\$ <u>5,762,028</u>	\$ <u>5,762,028</u>

The accompanying notes to the financial statements are an integral part of this report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2024

Total Fund Balances - Governmental Funds	\$	3,401,738
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Pension related assets, deferred inflows of resources and deferred outflows of resources are recorded in the government-wide Statement of Net Position.		251,995
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		1,873,140
Deferred inflows of resources related to property tax revenues and penalty and interest receivable for the 2023 and prior tax levies became part of recognized revenue in the governmental activities of the District.		<u>235,155</u>
Total Net Position - Governmental Activities	\$	<u><u>5,762,028</u></u>

The accompanying notes to the financial statements are an integral part of this report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	General Fund	Special Revenue Funds
REVENUES		
Property Taxes	\$ 1,540,185	\$
Penalty and Interest	23,581	
Impact Fees		76,842
Investment Revenues	105,025	59,324
Miscellaneous Revenues	47,400	
TOTAL REVENUES	\$ 1,716,191	\$ 136,166
EXPENDITURES/EXPENSES		
Service Operations:		
Salaries	\$ 732,544	\$
Professional Fees	225,786	
Contracted Services	57,882	
Utilities	12,304	
Repairs and Maintenance	127,627	
Depreciation		
Other	62,777	70
Capital Outlay	51,629	
TOTAL EXPENDITURES/EXPENSES	\$ 1,270,549	\$ 70
NET CHANGE IN FUND BALANCES	\$ 445,642	\$ 136,096
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - OCTOBER 1, 2023	1,644,000	1,176,000
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2024	\$ 2,089,642	\$ 1,312,096

The accompanying notes to the financial statements are an integral part of this report.

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 1,540,185	\$ (71,812)	\$ 1,468,373
23,581	95,218	118,799
76,842		76,842
164,349		164,349
<u>47,400</u>		<u>47,400</u>
<u>\$ 1,852,357</u>	<u>\$ 23,406</u>	<u>\$ 1,875,763</u>
\$ 732,544	\$ (121,972)	\$ 610,572
225,786		225,786
57,882		57,882
12,304		12,304
127,627		127,627
	186,521	186,521
62,847		62,847
<u>51,629</u>	<u>(51,629)</u>	
<u>\$ 1,270,619</u>	<u>\$ 12,920</u>	<u>\$ 1,283,539</u>
\$ 581,738	\$ (581,738)	\$
	592,224	592,224
<u>2,820,000</u>	<u>2,349,804</u>	<u>5,169,804</u>
<u>\$ 3,401,738</u>	<u>\$ 2,360,290</u>	<u>\$ 5,762,028</u>

The accompanying notes to the financial statements are an integral part of this report.

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

Net Change in Fund Balances - Governmental Funds	\$	581,738
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(71,812)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		95,218
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(186,521)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		51,629
The changes in net pension asset, liability, deferred outflows of resources, and deferred inflows of resources are recorded in the government-wide financial statements.		<u>121,972</u>
Change in Net Position - Governmental Activities	\$	<u><u>592,224</u></u>

The accompanying notes to the financial statements are an integral part of this report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 1. CREATION OF DISTRICT

Galveston County Drainage District No. 2 was created by a vote of the people in 1911 under the District provisions of Section 59 of Articles XVI of the Texas Constitution for the sole purpose of reclamation and drainage of its overflowed lands needing drainage and vested with all the rights, powers, privileges, and duties conferred and imposed by the general laws of the State of Texas. The District is also subject to the continuing supervision of the Texas Commission on Environmental Quality. The District's primary activity is the control of flooding within its boundaries. As such, the District works in conjunction with local, state, federal and other county agencies to maintain existing flood control systems, construct additions and modifications and review additions and modifications proposed by others.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification").

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

The GASB Codification set forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements. The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position. The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The District’s fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has two governmental fund and considers each to be a major fund.

General Fund – To account for maintenance tax revenues, customer service revenues, operating costs and general expenditures.

Special Revenue Fund – To account for activities related to various drainage facilities through the District.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$1,000 and a useful life over one year. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings and Improvements	50
Land Improvements	50
Tools and Equipment	10
Heavy Equipment	20

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the budgeted amounts compared to the actual amounts of revenues and expenditures for the current year.

Pension Benefit

The Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established for the directors. A plan has been established for the District’s employees other than directors. (See Note 7).

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position. Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources.

Fund balances in governmental funds are classified using the following hierarchy:

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. The District does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. The District has assigned \$43,420 of its General Fund fund balance to cover a budgeted deficit for the fiscal year ending September 30, 2025.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes. Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged.

At fiscal year end, the carrying amount of the District’s deposits was \$49,580 and the bank balance was \$80,624. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2024, as listed below:

	Cash
GENERAL FUND	\$ 49,370
SPECIAL REVENUE FUND	210
TOTAL DEPOSITS	\$ 49,580

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), an external investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. UMB Bank N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District’s position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

As of September 30, 2024, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 2,220,634	\$ 2,220,634
<u>SPECIAL REVENUE FUND</u>		
Texas CLASS	<u>1,177,994</u>	<u>1,177,994</u>
TOTAL INVESTMENTS	<u>\$ 3,398,628</u>	<u>\$ 3,398,628</u>

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment in Texas CLASS was rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers its investments in Texas CLASS to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District unless there have been significant changes in value.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the current year is summarized in the following table:

	October 1, 2023	Increases	Decreases	September 30, 2024
Capital Assets Not Being Depreciated				
Land and Easements	\$ 407,620	\$ -0-	\$ -0-	\$ 407,620
Capital Assets Subject to Depreciation				
Building and Improvements	\$ 304,850	\$	\$	\$ 304,850
Land Improvements	355,058			355,058
Furniture and Equipment	1,834,996			1,834,996
Vehicles	159,098	51,629	25,795	184,932
Total Capital Assets Subject to Depreciation	\$ 2,654,002	\$ 51,629	\$ 25,795	\$ 2,679,836
Accumulated Depreciation				
Building and Improvements	\$ 123,324	\$ 10,597	\$	\$ 133,921
Land Improvements	40,942	6,397		47,339
Furniture and Equipment	750,498	155,018		905,516
Vehicles	138,826	14,509	25,795	127,540
Total Accumulated Depreciation	\$ 1,053,590	\$ 186,521	\$ 25,795	\$ 1,214,316
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 1,600,412	\$ (134,892)	\$ - 0 -	\$ 1,465,520
Total Capital Assets, Net of Accumulated Depreciation	\$ 2,008,032	\$ (134,892)	\$ - 0 -	\$ 1,873,140

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 5. MAINTENANCE TAX

During the year ended September 30, 2024, the District levied an ad valorem maintenance tax rate of \$0.044553 per \$100 of assessed valuation, which resulted in a tax levy of \$1,555,333 on the adjusted taxable valuation of \$3,302,427,669 for the 2023 tax year. All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; and natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, errors and omissions and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 7. PENSION 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. TCDRS issues a publicly available annual comprehensive financial report (ACFR) which includes financial statements, notes and required supplementary information which can be obtained at TCDRS, Finance Division, Barton Oaks Plaza IV, 901 S. MoPac Expressway, Suite 500, Austin, Texas 78746 or at www.TCDRS.org.

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 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 7. PENSION PLAN (Continued)

Funding Policy (Continued)

by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. At the valuation date of December 31, 2023, the following employees were covered by the benefit terms:

Current retirees and beneficiaries	8
Current inactive members	7
Current active members	10

Funding Policy

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

The contribution rate payable by the employee members for calendar years 2022 and 2023 were 7.00% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ending September 30, 2024, the annual pension cost for the TCDRS plan for its employees was \$123,506.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 7. PENSION PLAN (Continued)

Net Pension Asset/Liability (Continued)

Actuarial valuation date	12/31/23
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Asset Valuation Method	5-years, smooth market
Actuarial Assumptions:	
Investment return, net	7.5%
Projected salary increases	4.7%
Inflation	2.50%

The net pension asset/liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions above, except as noted. The discount rate reflects the long-term rate of return funding valuation assumption of 7.50%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68. 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.

The actuarial assumptions that determined the total pension liability as of December 31, 2023 were based on the results of an actuarial experience study for the years 2017-2020.

Mortality rates were based on the following: 135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

The long-term expected rate of return on TCDRS assets is reviewed annually and is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The numbers shown are based on January 2024 information for a 10-year time horizon. The valuation assumption for long-term expected return is set based on a long-term time horizon.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 7. PENSION PLAN (Continued)

Net Pension Asset/Liability (Continued)

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	11.50%	4.75%
Private Equity	25.00%	7.75%
Global Equities	2.50%	4.75%
International Equities-Developed	5.00%	4.75%
International Equities-Emerging	6.00%	4.75%
Investment-Grade Bonds	3.00%	2.35%
Strategic Credit	9.00%	3.65%
Direct Lending	16.00%	7.25%
Distressed Debt	4.00%	6.90%
REIT Equities	2.00%	4.10%
Master Limited Partnerships (MLPs)	2.00%	5.20%
Private Real Estate Partnerships	6.00%	5.70%
Hedge Funds	6.00%	3.25%
Cash Equivalents	2.00%	0.60%

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 7. PENSION PLAN (Continued)

Net Pension Asset/Liability (Continued)

Changes in Net Pension Asset/Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a)-(b)
Balances of December 31, 2022	\$ 5,981,433	\$ 5,856,696	\$ 124,737
Changes for the year:			
Service Costs	70,627		70,627
Interest on total pension liability	447,372		447,372
Effect of economic/demographic gains or losses	68,245		68,245
Benefit payments	(337,360)	(337,360)	
Administrative Expense		(3,283)	3,283
Member contributions		39,246	(39,246)
Net investment income		641,671	(641,671)
Employer contributions		97,443	(97,443)
Other		(7,696)	7,696
Balances of December 31, 2023	<u>\$ 6,230,317</u>	<u>\$ 6,286,717</u>	<u>\$ (56,400)</u>

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

	1% Decrease 6.6%	Current Discount Rate 7.6%	1% Increase 8.6%
Total pension liability	\$ 7,030,831	\$ 6,230,317	\$ 5,558,385
Fiduciary net position	<u>6,286,717</u>	<u>6,286,717</u>	<u>6,286,717</u>
Net pension liability/(asset)	<u>\$ 744,114</u>	<u>\$ (56,400)</u>	<u>\$ (728,332)</u>

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 7. PENSION PLAN (Continued)

Net Pension Asset/Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 53,986	\$ 42,867
Changes of assumptions	70,640	
Net differences between projected and actual earnings	22,456	
Contributions subsequent to the measurement date	91,380	
Total	\$ 238,462	\$ 42,867

The District made plan contributions subsequent to the measurement date and prior to the fiscal year-end of \$91,380, which are recorded as deferred outflows of resources. Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended <u>September:</u>	
2024	\$ 26,414
2025	(25,416)
2026	144,107
2027	(40,890)
2028	-0-
Thereafter	-0-

NOTE 8. COMPENSATED ABSENCES

Compensated absences payable recorded in the accompanying financial statements relates to earned vacation and sick leave time. As of September 30, 2024, there were no material accumulated unpaid vacation or sick leave benefits.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2024

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL –GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 1,472,000	\$ 1,472,000	\$ 1,540,185	\$ 68,185
Penalty and Interest			23,581	23,581
Investment Revenues	40,000	40,000	105,025	65,025
Miscellaneous Revenues			47,400	47,400
TOTAL REVENUES	<u>\$ 1,512,000</u>	<u>\$ 1,512,000</u>	<u>\$ 1,716,191</u>	<u>\$ 204,191</u>
EXPENDITURES				
Service Operations:				
Salaries	\$ 822,850	\$ 822,850	\$ 732,544	\$ 90,306
Professional Fees	307,000	307,000	225,786	81,214
Contracted Services	55,000	56,000	57,882	(1,882)
Utilities	19,000	19,000	12,304	6,696
Repairs and Maintenance	80,000	80,000	127,627	(47,627)
Other	206,900	206,900	62,777	144,123
Capital Outlay	430,000	430,000	51,629	378,371
TOTAL EXPENDITURES	<u>\$ 1,920,750</u>	<u>\$ 1,921,750</u>	<u>\$ 1,270,549</u>	<u>\$ 651,201</u>
NET CHANGE IN FUND BALANCE	\$ (408,750)	\$ (409,750)	\$ 445,642	\$ 855,392
FUND BALANCE - OCTOBER 1, 2023	<u>1,644,000</u>	<u>1,644,000</u>	<u>1,644,000</u>	
FUND BALANCE - SEPTEMBER 30, 2024	<u>\$ 1,235,250</u>	<u>\$ 1,234,250</u>	<u>\$ 2,089,642</u>	<u>\$ 855,392</u>

See accompanying independent auditor's report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
SCHEDULE OF CHANGES IN NET PENSION ASSET/LIABILITY
AND RELATED RATIOS
SEPTEMBER 30, 2024

	Year Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2020
Total Pension Liability				
Service Cost	\$ 70,627	\$ 80,988	\$ 82,961	\$ 69,195
Interest (on the Total Pension Liability)	447,372	436,481	411,843	386,944
Effect on plan changes				
Changes of assumptions			(593)	324,016
Effect of economic/demographic gains or losses	68,245	(85,438)	23,344	14,002
Benefit payments, including refunds of employee contributions	<u>(337,360)</u>	<u>(221,497)</u>	<u>(162,401)</u>	<u>(169,316)</u>
Net change in total pension liability	\$ 248,884	\$ 210,534	\$ 355,154	\$ 624,841
Total pension liability, beginning	<u>5,981,434</u>	<u>5,770,900</u>	<u>5,415,746</u>	<u>4,790,905</u>
Total pension liability, ending (a)	<u>\$ 6,230,318</u>	<u>\$ 5,981,434</u>	<u>\$ 5,770,900</u>	<u>\$ 5,415,746</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 97,443	\$ 85,728	\$ 221,283	\$ 70,696
Contributions - employee	39,246	33,847	35,432	33,710
Net investment income	641,671	(362,600)	1,132,443	484,566
Benefit payments, including refunds of employee contributions	(337,360)	(221,497)	(162,401)	(169,316)
Administrative Expense	(3,283)	(3,432)	(3,427)	(3,736)
Other	<u>(7,695)</u>	<u>(9,057)</u>	<u>4,078</u>	<u>(1,458)</u>
Net Change in plan fiduciary net position	\$ 430,022	\$ (477,011)	\$ 1,227,408	\$ 414,462
Plan Fiduciary net position, beginning	<u>5,856,696</u>	<u>6,333,707</u>	<u>5,106,299</u>	<u>4,691,837</u>
Plan Fiduciary net position, ending (b)	<u>\$ 6,286,718</u>	<u>\$ 5,856,696</u>	<u>\$ 6,333,707</u>	<u>\$ 5,106,299</u>
Net Pension Liability/(Asset), Ending = (a) - (b)	<u>\$ (56,400)</u>	<u>\$ 124,738</u>	<u>\$ (562,807)</u>	<u>\$ 309,447</u>
Plan fiduciary net position as a percentage of the total pension liability	100.91%	97.91%	109.75%	94.29%
Covered-employee payroll	\$ 560,659	\$ 483,522	\$ 618,663	\$ 481,575
Net pension liability as a percentage of covered employee payroll	-10.06%	25.80%	-90.97%	64.26%

See accompanying independent auditor's report.

Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
\$ 68,166	\$ 75,928	\$ 76,673	\$ 76,113	\$ 72,395	\$ 69,109
368,756	369,682	363,518	330,735	305,317	279,770
		3,532		(4,005)	
				21,473	
(42,281)	4,797	11,560	4,108	(27,980)	4,582
<u>(172,867)</u>	<u>(724,535)</u>	<u>(45,575)</u>	<u>(45,575)</u>	<u>(47,705)</u>	<u>(48,769)</u>
\$ 221,774	\$ (274,128)	\$ 409,708	\$ 365,381	\$ 319,495	\$ 304,692
<u>4,569,131</u>	<u>4,843,259</u>	<u>4,433,551</u>	<u>4,068,170</u>	<u>3,748,675</u>	<u>3,443,983</u>
<u>\$ 4,790,905</u>	<u>\$ 4,569,131</u>	<u>\$ 4,843,259</u>	<u>\$ 4,433,551</u>	<u>\$ 4,068,170</u>	<u>\$ 3,748,675</u>
\$ 160,777	\$ 67,054	\$ 54,934	\$ 44,452	\$ 44,976	\$ 45,063
31,016	35,483	35,343	33,487	31,963	30,566
659,445	(95,523)	600,864	281,084	(102,224)	239,879
(172,867)	(724,535)	(45,575)	(45,575)	(47,705)	(48,769)
(3,575)	(3,225)	(3,162)	(3,055)	(2,765)	(2,892)
<u>1,302</u>	<u>(18,053)</u>	<u>570</u>	<u>34</u>	<u>(8,121)</u>	<u>2,464</u>
\$ 676,098	\$ (738,799)	\$ 642,974	\$ 310,427	\$ (83,876)	\$ 266,311
<u>4,015,739</u>	<u>4,754,538</u>	<u>4,111,564</u>	<u>3,801,137</u>	<u>3,885,012</u>	<u>3,618,701</u>
<u>\$ 4,691,837</u>	<u>\$ 4,015,739</u>	<u>\$ 4,754,538</u>	<u>\$ 4,111,564</u>	<u>\$ 3,801,136</u>	<u>\$ 3,885,012</u>
<u>\$ 99,068</u>	<u>\$ 553,392</u>	<u>\$ 88,721</u>	<u>\$ 321,987</u>	<u>\$ 267,034</u>	<u>\$ (136,337)</u>
97.93%	87.89%	98.17%	92.74%	93.44%	103.64%
\$ 443,082	\$ 506,898	\$ 504,905	\$ 478,386	\$ 456,612	\$ 436,656
22.36%	109.17%	17.57%	67.31%	58.48%	-31.22%

See accompanying independent auditor's report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION
SEPTEMBER 30, 2024

Year Ending September	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽¹⁾	Actual Contribution as a % of Covered Payroll
2015	\$ 44,975	\$ 44,975	\$ -0-	\$ 453,403	9.9%
2016	\$ 47,368	\$ 47,368	\$ -0-	\$ 483,505	9.8%
2017	\$ 51,855	\$ 51,855	\$ -0-	\$ 507,856	10.2%
2018	\$ 54,934	\$ 54,934	\$ -0-	\$ 504,905	10.9%
2019	\$ 62,144	\$ 62,144	\$ -0-	\$ 432,020	14.4%
2020	\$ 68,830	\$ 168,830	\$(100,000)	\$ 461,730	36.6%
2021	\$ 69,894	\$ 119,894	\$ (50,000)	\$ 477,073	25.1%
2022	\$ 71,320	\$ 221,283	\$(149,963)	\$ 506,171	43.7%
2023	\$ 82,032	\$ 82,032	\$ -0-	\$ 483,522	17.0%
2024	\$ 123,506	\$ 123,506	\$ -0-	\$ 687,759	18.0%

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

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

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	17.3 years (based on contribution rate calculated in 12/31/2023 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career including inflation.
Investment Rate of Return	7.50%, net of administrative and investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale of 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected.
	2017: New mortality assumptions were reflected.
	2019: New inflation, mortality and other assumptions were reflected.
	2022: New investment return and inflation assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the Schedule.
	2016: No changes in plan provisions were reflected in the Schedule.
	2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.
	2018: No changes in plan provisions were reflected in the Schedule.
	2019: No changes in plan provisions were reflected in the Schedule.
	2020: No changes in plan provisions were reflected in the Schedule.
	2021: No changes in plan provisions were reflected in the Schedule.
2022: No changes in plan provisions were reflected in the Schedule.	
	2023: No changes in plan provisions were reflected in the Schedule.

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

See accompanying independent auditor's report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

SEPTEMBER 30, 2024

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County in which District is located:

Galveston County, Texas

Is the District located within a city?

Entirely X Partly Not at all

City in which the District is located:

City of La Marque, Texas

Are Board Members appointed by an office outside the District?

Yes No X

See accompanying independent auditor's report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>732,544</u>
PROFESSIONAL FEES:	
Auditing	\$ 20,350
Engineering	148,218
Legal	<u>57,218</u>
TOTAL PROFESSIONAL FEES	<u>\$ 225,786</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 10,571
Bookkeeping	43,289
Tax Collector	<u>4,022</u>
TOTAL CONTRACTED SERVICES	<u>\$ 57,882</u>
UTILITIES:	
Electricity	\$ 5,025
Telephone	<u>7,279</u>
TOTAL UTILITIES	<u>\$ 12,304</u>
REPAIRS AND MAINTENANCE	<u>\$ 127,627</u>
ADMINISTRATIVE EXPENDITURES:	
Commissioner Fees	\$ 21,300
Insurance	19,935
Legal Notices	685
Postage	339
Administration, Dues, Education, and Other	<u>20,518</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 62,777</u>
CAPITAL OUTLAY	<u>\$ 51,629</u>
TOTAL EXPENDITURES	<u><u>\$ 1,270,549</u></u>

Number of persons employed by the District 7 Full-Time -0- Part-Time

See accompanying independent auditor's report.

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
INVESTMENTS
SEPTEMBER 30, 2024

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0002	Varies	Daily	\$ 2,220,634	\$ - 0 -
<u>SPECIAL REVENUE FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	\$ 557,860	\$
Texas CLASS	XXXX0004	Varies	Daily	139,934	
Texas CLASS	XXXX0005	Varies	Daily	480,200	
TOTAL SPECIAL REVENUE FUND				\$ 1,177,994	\$ - 0 -
TOTAL - ALL FUNDS				\$ 3,398,628	\$ - 0 -

GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Maintenance Taxes	
TAXES RECEIVABLE -		
OCTOBER 1, 2023	\$ 127,349	
Adjustments to Beginning		
Balance	(2,560)	\$ 124,789
Original 2023 Tax Levy	\$ 1,472,356	
Adjustment to 2023 Tax Levy	82,977	1,555,333
TOTAL TO BE		
ACCOUNTED FOR		\$ 1,680,122
TAX COLLECTIONS:		
Prior Years	\$ 32,862	
Current Year	1,507,323	1,540,185
TAXES RECEIVABLE -		
SEPTEMBER 30, 2024		\$ 139,937
TAXES RECEIVABLE BY		
YEAR:		
2023		\$ 48,010
2022		21,751
2021		13,634
2020		7,611
2019 and prior		48,931
TOTAL		\$ 139,937

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 3,302,427,669</u>	<u>\$ 3,324,893,619</u>	<u>\$ 3,324,893,619</u>	<u>\$ 2,706,829,320</u>
TAX RATES PER \$100 VALUATION	<u>\$ 0.044553</u>	<u>\$ 0.046088</u>	<u>\$ 0.048552</u>	<u>\$ 0.050245</u>
ADJUSTED TAX LEVY*	<u>\$ 1,555,333</u>	<u>\$ 1,442,175</u>	<u>\$ 1,271,586</u>	<u>\$ 1,117,098</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>96.91 %</u>	<u>98.49 %</u>	<u>98.93 %</u>	<u>99.32 %</u>

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amounts		
	2024	2023	2022
REVENUES			
Property Taxes	\$ 1,540,185	\$ 1,437,689	\$ 1,269,777
Penalty and Interest	23,581	23,282	20,145
Investment Revenues	105,025	16,132	
Miscellaneous Revenues	47,400	7,395	16,089
TOTAL REVENUES	\$ 1,716,191	\$ 1,484,498	\$ 1,306,011
EXPENDITURES			
Personnel	\$ 732,544	\$ 689,504	\$ 795,441
Professional Fees	225,786	306,573	48,870
Contracted Services	57,882	51,265	34,524
Repairs and Maintenance	127,627	88,908	71,635
Other	75,081	78,762	89,285
Capital Outlay	51,629	551,390	2,612
TOTAL EXPENDITURES	\$ 1,270,549	\$ 1,766,402	\$ 1,042,367
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 445,642	\$ (281,904)	\$ 263,644
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$	\$	\$ 500,000
Proceeds - Sale of Capital Assets		130,000	
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ 130,000	\$ 500,000
NET CHANGE IN FUND BALANCE	\$ 445,642	\$ (151,904)	\$ 763,644

		Percentage of Total Revenues				
<u>2021</u>	<u>2020</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
\$ 1,115,657	\$ 1,071,274	89.7 %	96.8 %	97.2 %	96.8 %	97.4 %
16,510	14,428	1.4	1.6	1.6	1.4	1.3
21,025	14,079	2.8	0.5	1.2	1.8	1.3
<u>\$ 1,153,192</u>	<u>\$ 1,099,781</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 711,162	\$ 747,046	42.7 %	46.5 %	60.9 %	61.6 %	67.9 %
48,520	37,176	13.2	20.7	3.7	4.2	3.4
38,600	32,969	3.4	3.4	2.6	3.4	3.0
55,796	50,110	7.4	6.0	5.5	4.8	4.5
43,449	53,533	4.4	5.4	6.9	3.8	4.9
205,093	9,669	3.0	37.0	0.2	17.8	0.9
<u>\$ 1,102,620</u>	<u>\$ 930,503</u>	<u>74.1 %</u>	<u>119.0 %</u>	<u>79.8 %</u>	<u>95.6 %</u>	<u>84.6 %</u>
<u>\$ 50,572</u>	<u>\$ 169,278</u>	<u>25.9 %</u>	<u>(19.0) %</u>	<u>20.2 %</u>	<u>4.4 %</u>	<u>15.4 %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
<u>\$ 50,572</u>	<u>\$ 169,278</u>					

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2024**

District Mailing Address - Galveston County Drainage District No. 2
P. O. Box 624
La Marque, TX 77568-0624

District Telephone Number - (409) 935-2041

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>September 30, 2024</u>	Expense Reimbursements for the year ended <u>September 30, 2024</u>	<u>Title</u>
Wayne Hobgood	05/22 05/26 (Elected)	\$ 7,200	\$ -0-	Chairman
Jack Ellison, Jr.	05/22 05/26 (Elected)	\$ 7,200	\$ -0-	Assistant Chairman
Angel Murphy	05/22 05/26 (Elected)	\$ 7,200	\$ -0-	Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form: September 16, 2024

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

**GALVESTON COUNTY DRAINAGE DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2024**

Key Administrative Personnel	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2024</u>	<u>Title</u>
Landry Cravens	2022	\$ 98,102	District Manager
Candace Warren	2022	\$ 53,944	Office Administrator
Consultants:			
Polley Garza PLLC		\$ 57,218	General Counsel
Whitley Penn, LLP		\$ 20,350	Prior Auditor
McCall Gibson Swedlund Barfoot Ellis PLLC		\$ -0-	Auditor
Pape-Dawson Engineers		\$ 142,493	Engineer
Protocol Bookkeeping, Inc.		\$ 14,059	Prior Bookkeeper
Gulf Coast Bookkeeping, LLC		\$ 29,230	Bookkeeper