

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B

KAUFMAN COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2025

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McCall Gibson Swedlund Barfoot Ellis PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Kaufman County Fresh Water
Supply District No. 7-B
Kaufman County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Kaufman County Fresh Water Supply District No. 7-B (the "District"), as of and for the year ended July 31, 2025, 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 major fund of the District as of July 31, 2025, 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 and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund 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 Supervisors
Kaufman County Fresh Water
Supply District No. 7-B

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

December 17, 2025

**KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2025**

Management's discussion and analysis of Kaufman County Fresh Water Supply District No. 7-B's (the "District") financial performance provides an overview of the District's financial activities for the year ended July 31, 2025. 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 Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. 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 includes all the District's assets, liabilities and, if applicable, deferred inflows and 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 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 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 one governmental fund type. The General Fund accounts for developer advances, operating costs and general expenditures.

**KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2025**

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 Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance 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 government-wide and fund 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.

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 exceeded liabilities by \$2,681,280 as of July 31, 2025. This is the District's first audit. In future years a comparative analysis of government-wide changes in net position will be presented. The following table provides a summary of the Statement of Net Position for the year ended July 31, 2025:

**KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2025**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of the Statement of Net Position	
	2025
Current and Other Assets	\$ 25,002
Capital Assets (Net of Accumulated Depreciation)	13,629,365
Total Assets	\$ 13,654,367
Due to Developer	\$ 9,502,443
Other Liabilities	1,470,644
Total Liabilities	\$ 10,973,087
Net Position:	
Net Investment in Capital Assets	\$ 4,534,823
Unrestricted	(1,853,543)
Total Net Position	\$ 2,681,280

The following table provides a summary of the District's operations for the year ended July 31, 2025, which is the initial audit period for the District:

Summary of the Statement of Activities	
	2025
Revenues:	
Other Revenues	\$ 3,118,723
Expenses for Services	123,078
Change in Net Position	\$ 2,995,645
Net Position, Beginning	(314,365)
Net Position, Ending	\$ 2,681,280

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's General Fund fund balance is a deficit of \$1,445,642, a decrease of \$1,434,651, primarily due to operating and capital costs exceeding developer advances.

**KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2025**

CAPITAL ASSETS

Capital assets as of July 31, 2025, total \$13,629,365 (net of accumulated depreciation) and comprises the lift station and gravity main improvements to serve the Kingsborough East wastewater treatment plant; and Kingsborough East wastewater treatment plant foundation and yard piping. Construction in progress includes other cost related to the construction of the Kingsborough East wastewater treatment plant.

Capital Assets At Year-End, Net of Accumulated Depreciation	
	2025
Capital Assets Not Being Depreciated:	
Construction in Progress	\$ 9,010,364
Capital Assets, Net of Accumulated Depreciation:	
Sanitary Sewer System	4,619,001
Total Net Capital Assets	\$ 13,629,365

LONG-TERM DEBT

The District has no outstanding long-term debt as of July 31, 2025.

As of July 31, 2025, the District has recorded an amount due to Developer of \$9,502,443 which consist of advances for operating and capital costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Supervisors adopted an unappropriated budget for the current fiscal year, which was amended. Actual revenues were \$13 more than budgeted revenues and actual expenditures were \$6,469,805 more than budgeted expenditures. Developer advances of \$5,149,881, which included \$6,506,232 of advances for construction purposes, were \$5,035,141 more than budgeted. This resulted in a negative budget variance of \$1,434,651. See the budget to actual comparison for more information.

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 Kaufman County Fresh Water Supply District No. 7-B, c/o Winstead PC, 2728 N. Harwood Street, Suite 500, Dallas, Texas 75201.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JULY 31, 2025

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 5,457	\$	\$ 5,457
Prepaid Costs	19,545		19,545
Construction in Progress		9,010,364	9,010,364
Capital Assets (Net of Accumulated Depreciation)		4,619,001	4,619,001
TOTAL ASSETS	\$ 25,002	\$ 13,629,365	\$ 13,654,367
LIABILITIES			
Accounts Payable	\$ 1,470,644	\$	\$ 1,470,644
Due to Developers		9,502,443	9,502,443
TOTAL LIABILITIES	\$ 1,470,644	\$ 9,502,443	\$ 10,973,087
FUND BALANCE			
Nonspendable:			
Prepaid Costs	\$ 19,545	\$ (19,545)	\$
Unassigned	(1,465,187)	1,465,187	
TOTAL FUND BALANCE	\$ (1,445,642)	\$ 1,445,642	\$ -0-
TOTAL LIABILITIES AND FUND BALANCE			
	\$ 25,002		
NET POSITION			
Net Investment in Capital Assets		\$ 4,534,823	\$ 4,534,823
Unrestricted		(1,853,543)	(1,853,543)
TOTAL NET POSITION		\$ 2,681,280	\$ 2,681,280

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

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JULY 31, 2025

Total Fund Balance - Governmental Fund	\$ (1,445,642)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	13,629,365
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:	
Due to Developer	<u>(9,502,443)</u>
Total Net Position - Governmental Activities	<u>\$ 2,681,280</u>

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

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JULY 31, 2025

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Conveyance of Assets	\$	\$ 3,118,380	\$ 3,118,380
Investment and Miscellaneous Revenues	343		343
TOTAL REVENUES	\$ 343	\$ 3,118,380	\$ 3,118,723
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 43,987	\$	\$ 43,987
Contracted Services	15,972		15,972
Depreciation		28,535	28,535
Other	18,684		18,684
Capital Outlay	6,506,232	(6,490,332)	15,900
TOTAL EXPENDITURES/EXPENSES	\$ 6,584,875	\$ (6,461,797)	\$ 123,078
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (6,584,532)	\$ 9,580,177	\$ 2,995,645
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$ 5,149,881	\$ (5,149,881)	\$ -0-
NET CHANGE IN FUND BALANCE	\$ (1,434,651)	\$ 1,434,651	\$
CHANGE IN NET POSITION		2,995,645	2,995,645
FUND BALANCE(DEFICIT)/NET POSITION - AUGUST 1, 2024	(10,991)	(303,374)	(314,365)
FUND BALANCE(DEFICIT)/NET POSITION - JULY 31, 2025	\$ (1,445,642)	\$ 4,126,922	\$ 2,681,280

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

**KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2025**

Net Change in Fund Balance - Governmental Fund	\$ (1,434,651)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds do not account for contributions from other governmental entities for the construction of assets. However, in the Statement of Net Position, capital assets are increased and revenue is recorded in the Statement of Activities.	3,118,380
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and the expense is recorded in the Statement of Activities.	(28,535)
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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.	6,490,332
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Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability.	<u>(5,149,881)</u>
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Change in Net Position - Governmental Activities	<u>\$ 2,995,645</u>
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The accompanying notes to the financial statements are an integral part of this report.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

NOTE 1. CREATION OF DISTRICT

In an order dated July 17, 2019, the Commissioners Court of Kaufman County (the “County”), pursuant to a petition signed by the landowners within the proposed district at the time, granted the creation of Kaufman County Fresh Water Supply District No. 7 (“KCFWSD No. 7”) pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49, 51, and 53 of the Texas Water Code, as amended. At an election conducted on November 3, 2020, voters approved the division of KCFWSD No. 7 into two districts, thereby changing the boundaries of the KCFWSD No. 7 and renaming it Kaufman County Fresh Water Supply District No. 7-A and creating Kaufman County Fresh Water Supply District No 7-B (the “District”). On November 8, 2022, the voters of the District approved the rights, authority, privileges and functions of a road district; assume the power to purchase, construct, acquire, own, operate, repair, improve and extend sanitary sewer systems to control wastes within the District.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water and, the construction, operation and maintenance of macadamized, graveled or paved roads and improvements, including storm drainage, in aid of those roads. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose if certain approvals are obtained.

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.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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”).

The GASB Codification sets 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, and intangible assets net of accumulated depreciation and amortization 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’s 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.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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 to obtain net total revenues and expenses of the government-wide Statement of Activities.

Fund Financial Statements

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

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

General Fund - To account for developer advances, operating costs and general expenditures.

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

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical 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 costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Water System	10-45
Sanitary Sewer System	10-45
Storm Drainage System	10-40
Paving	45

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Supervisors. 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 original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that supervisors are considered “employees” for federal payroll tax purposes only.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

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.

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. The District does not have any restricted fund balances.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Supervisors. 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 and does not have any assigned fund balances.

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.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

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 expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

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 \$5,457 and the bank balance was \$13,250. The District was not exposed to custodial credit risk.

The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Position as of July 31, 2025, as listed below:

GENERAL FUND	Cash
	\$ 5,457

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 Supervisors.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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.

As of July 31, 2025, the District had no investments.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended July 31, 2025:

	August 1, 2024	Increases	Decreases	July 31, 2025
Capital Assets Not Being Depreciated				
Construction in Progress	\$ -0-	\$ 13,657,900	\$ 4,647,536	\$ 9,010,364
Capital Assets Subject to Depreciation				
Sanitary Sewer System	\$ -0-	\$ 4,647,536	\$ -0-	\$ 4,647,536
Accumulated Depreciation				
Sanitary Sewer System	\$ -0-	\$ 28,535	\$ -0-	\$ 28,535
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ -0-</u>	<u>\$ 4,619,001</u>	<u>\$ -0-</u>	<u>\$ 4,619,001</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ -0-</u>	<u>\$ 18,276,901</u>	<u>\$ 4,647,536</u>	<u>\$ 13,629,365</u>

NOTE 5. MAINTENANCE TAX

On November 8, 2022, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. During the current year ended July 31, 2025, the District did not levy an ad valorem maintenance tax.

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.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

NOTE 6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the last three years.

NOTE 7. UNREIMBURSED COSTS

The District has entered into financing agreements with the Developers which calls for the Developers to fund operating advances as well as costs associated with the construction of roads, water, wastewater, and drainage infrastructure. The District has an obligation to reimburse the Developers for these costs from future bond issues or other lawfully available funds. The following table summarizes the current activity related to unreimbursed costs

Due to Developers, August 1, 2024	\$	303,374
Add: Current Year Additions		9,199,069
Due to Developers, July 31, 2025	\$	9,502,443

NOTE 8. WASTEWATER SERVICES AGREEMENTS

Pursuant to a certain Wastewater Agreement between the District and Kaufman County Fresh Water Supply District No. 7-A (“KCFWSD No. 7-A”) dated August 2, 2023; and pursuant to a certain Wastewater Agreement between the District and Kaufman County Fresh Water Supply District No. 3 (“KCFWSD No. 3”) dated August 24, 2023: the District will construct and operate a wastewater treatment plant along with collection and treatment facilities (the “Sewer Facilities”), providing service to the territory within the boundaries of the District, KCFWSD No. 7-A and KCFWSD No. 3. The term of these agreements are 40 years from the effective date.

The parties acknowledge the initial construction costs of the wastewater treatment plant will be borne by JLM 717 Kaufman, LP in accordance with the terms of a reimbursement agreement with the respective parties. The TCEQ approved a wastewater treatment permit for the treatment of 1.6 million gallons per day of wastewater. As of July 31, 2025, this project is in progress.

The District will install metering equipment and related facilities for properly measuring the quantity of wastewater treatment services delivered to each district. The parties agree to pay all maintenance and operating expenses and other facility costs in a timely manner.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2025

NOTE 9. ECONOMIC DEPENDENCY AND DEFICIT FUND BALANCE

The District's Developer owns a substantial portion of the taxable property within the District. The Developer's ability to make full and timely payments of taxes and provide operating advances directly affects the District's ability to meet its financial obligations. The General Fund has a deficit fund balance of \$1,445,642 as of July 31, 2025. The deficit is projected to be eliminated with property tax revenues and/or developer advances in the next fiscal year.

NOTE 10. LEASE AGREEMENTS

On September 27, 2023, the District entered into a lease agreement with AUC Group LLC ("AUC"), for construction, installation and lease of a 100,000 gallons per day wastewater treatment plant at the facilities located at 9000 Evans Road. The term of this agreement will begin on the date of the commencement letter from AUC upon substantial completion of the facilities and shall remain in effect for 36 months unless terminated earlier. Lease payments, in the amount of \$28,130, are due and payable on the first day of each month in advance. In addition, the District will pay installation fees, if any. Upon sixty days written notice, after the expiration of the initial term, the District has the option to purchase all or a portion of the leased property from AUC.

On April 24, 2024, the District and Kingsborough East Wastewater Treatment Facility entered into a lease agreement with Precision Utility, LLC ("PUL") for a Mobile Wastewater Treatment Plant and Equipment Utility Trailer for use for wastewater treatment located at 9419 Lamkin Road. Monthly lease payments are \$9,750 with the option to purchase these facilities for \$195,000. During the current year, the District negotiated an early termination of this lease upon payment of \$195,000 to PUL by the Developer. The District has included this liability in the amount due to developers.

On August 6, 2024, Developers within the District entered into a lease agreement with Kingsborough Services, LLC ("KSLLC") for leased sewer plants. On February 5, 2025, KSLLC assigned its rights, title and interest in and to the plant leases to the District. Subsequent to the early termination of the PUL agreement, PUL transferred and conveyed the equipment to the District. The total rental and equipment purchase payments require to be paid pursuant to the plant lease with AUC is \$1,774,462. These costs were paid by the Developer during the current year. The District has included this liability in the amount due to developers.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2025

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2025

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Wastewater Service	\$ 31,337		\$	\$
Investment and Miscellaneous Revenues	<u>36</u>	<u>330</u>	<u>343</u>	<u>13</u>
TOTAL REVENUES	<u>\$ 31,373</u>	<u>\$ 330</u>	<u>\$ 343</u>	<u>\$ 13</u>
EXPENDITURES				
Service Operations:				
Professional Fees	\$ 50,000	\$ 55,225	\$ 43,987	\$ 11,238
Contracted Services	41,500	15,650	15,972	(322)
Purchased Wastewater Service	117,000			
Other	57,611	44,195	18,684	25,511
Capital Outlay			<u>6,506,232</u>	<u>(6,506,232)</u>
TOTAL EXPENDITURES	<u>\$ 266,111</u>	<u>\$ 115,070</u>	<u>\$ 6,584,875</u>	<u>\$ (6,469,805)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (234,738)</u>	<u>\$ (114,740)</u>	<u>\$ (6,584,532)</u>	<u>\$ (6,469,792)</u>
OTHER FINANCING SOURCES(USES)				
Developer Advances	<u>\$ 234,738</u>	<u>\$ 114,740</u>	<u>\$ 5,149,881</u>	<u>\$ 5,035,141</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ (1,434,651)	\$ (1,434,651)
FUND BALANCE(DEFICIT) - AUGUST 1, 2024	<u>(10,991)</u>	<u>(10,991)</u>	<u>(10,991)</u>	<u></u>
FUND BALANCE(DEFICIT) - JULY 31, 2025	<u>\$ (10,991)</u>	<u>\$ (10,991)</u>	<u>\$ (1,445,642)</u>	<u>\$ (1,434,651)</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
JULY 31, 2025

**KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2025**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u>N/A</u>	Retail Water	<u>N/A</u>	Wholesale Water	<u>N/A</u>	Drainage
<u>N/A</u>	Retail Wastewater	<u>X</u>	Wholesale Wastewater	<u>N/A</u>	Irrigation
<u>N/A</u>	Parks/Recreation	<u>N/A</u>	Fire Protection	<u>N/A</u>	Security
<u>N/A</u>	Solid Waste/Garbage	<u>N/A</u>	Flood Control	<u>N/A</u>	Roads
<u>N/A</u>	Participates in a regional system				
<u>N/A</u>	Other				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT): N/A

b. WATER AND WASTEWATER RETAIL CONNECTIONS: N/A

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: Not Applicable

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No X

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

See accompanying independent auditor's report.

**KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2025**

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County in which District is located:

Kaufman County, Texas

Is the District located within a city?

Entirely Partly Not at all X

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely X Partly Not at all

ETJ in which District is located:

City of Talty, Texas

Are Board Members appointed by an office outside the District?

Yes No X

See accompanying independent auditor's report.

**KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2025**

PROFESSIONAL FEES:	
Engineering	\$ 7,467
Legal	<u>36,520</u>
TOTAL PROFESSIONAL FEES	<u>\$ 43,987</u>
CONTRACTED SERVICES:	
Bookkeeping	<u>\$ 15,972</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 10,468
Insurance	3,315
Office Supplies and Postage	177
Travel, Training and Meetings	<u>4,724</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 18,684</u>
CAPITAL OUTLAY	<u>\$ 6,506,232</u>
TOTAL EXPENDITURES	<u>\$ 6,584,875</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – ONE YEAR

	Amounts	Percentage of Total Revenues
	2025	2025
REVENUES		
Investment and Miscellaneous Revenues	\$ 343	100.0
EXPENDITURES		
Professional Fees	\$ 43,987	12,824.2 %
Contracted Services	15,972	4,656.6
Other	18,684	5,447.2
Capital Outlay	6,506,232	1,896,860.6
TOTAL EXPENDITURES	\$ 6,584,875	1,919,788.6 %
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (6,584,532)	(1,919,688.6) %
OTHER FINANCING SOURCES (USES)		
Developer Advances	\$ 5,149,881	
NET CHANGE IN FUND BALANCE	\$ (1,434,651)	
BEGINNING FUND BALANCE(DEFICIT)	(10,991)	
ENDING FUND BALANCE(DEFICIT)	\$ (1,445,642)	
TOTAL ACTIVE RETAIL WATER CONNECTIONS	N/A	
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	N/A	

See accompanying independent auditor's report.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2025

District Mailing Address - Kaufman County Fresh Water Supply District No. 7-B
c/o Winstead PC
2728 N. Harwood Street, Suite 500
Dallas, TX 75201

District Telephone Number - (214) 745-5400

Board Members	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended July 31, 2025</u>	<u>Expense Reimbursements for the year ended July 31, 2025</u>	<u>Title</u>
Dave Arington	11/22 05/26 (Elected)	\$ 2,210	\$ 394	President
Bill King	11/22 05/26 (Elected)	\$ 1,989	\$ 428	Vice President
Joshua Heathcote	05/24 05/28 (Elected)	\$ 1,547	\$ 397	Secretary
Jeffery Gray	11/22 05/26 (Elected)	\$ 2,210	\$ 435	Assistant Secretary
Ben Harris	05/24 05/28 (Elected)	\$ 1,768	\$ 166	Assistant Secretary

Note: No Supervisor has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District’s developer or with any of the District’s consultants.

Submission date of most recent District Registration Form: May 13, 2024

The limit on Fees of Office that Supervisor’s may receive during a fiscal year is \$7,200. Fees of Office are the amounts actually paid to a Supervisor during the District’s current fiscal year.

See accompanying independent auditor’s report.

KAUFMAN COUNTY FRESH WATER SUPPLY DISTRICT NO. 7-B
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2025

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended July 31, 2025</u>	<u>Title</u>
Winstead PC	06/29/21	\$ 38,423 \$ -0-	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot Ellis PLLC	10/22/25	\$ -0- \$ -0-	Auditor Bond Related
Dye & Toverly, LLC	07/31/22	\$ 15,972	Bookkeeper
Robert W. Baird & Company Inc.	06/29/21	\$ -0-	Financial Advisor
Kimley-Horn and Associates, Inc.	11/10/21	\$ 191,549	Engineer
Kingsborough Services, LLC	07/31/24	\$ -0-	Operator
Kerry Toverly		\$ -0-	Investment Officer

See accompanying independent auditor's report.