

AUSTIN COUNTY EMERGENCY  
SERVICES DISTRICT NO. 2

Financial Statements  
with  
Report of Independent Auditor

September 30, 2019

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Austin County Emergency Services District No. 2

We have audited the accompanying financial statements of the governmental activities and General fund of the Austin County Emergency Services District No. 2, (the "District") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General fund of the Austin County Emergency Services District No. 2 as of September 30, 2019, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of Contributions on pages 3 through 6, and 24 through 25, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brenham, Texas  
June 2, 2020



Austin County  
Emergency Services District No. 2  
P.O. Box 1485  
Sealy, Texas 77474

### Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial activities of the Austin County Emergency Services District No. 2 for the year ended September 30, 2019. The information presented herein should be considered in conjunction with the financial statements identified in the accompanying table of contents.

### Using the Accompanying Financial Statements

The Statement of Net Position and the Statement of Activities are statements required under GASB 34 and provide information about the activities of the district as a whole and present a longer-term view of the District's finances.

### Overview of the Financial Statements

The annual report consists of three parts – Independent Auditor's Report, Management's Discussion and Analysis, and Basic Financial Statements.

- The first statement shows Statements of Net Position and Governmental Funds Balance Sheet.
- The next statement presents the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

The financial statements also include notes that explain some of the information in the financial statements and provide more details.

### Reporting the District as a Whole

The accompanying **Government Wide Financial Statements** include two statements that present financial data for the district as a whole. The Statement of Activities reports information about the district as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting. All the current year revenues and expenses are taken into account regardless of when funds are received or paid.

These two statements report the District's net position and liabilities and changes in them. The difference between the District's assets and deferred outflows of resources and its liabilities and deferred inflows of resources are one way to measure the district's financial position.

### Reporting the District's Most Significant Funds

The fund financial statements provide detailed information about the District's general fund which is the only fund.

- General fund is a governmental fund. This fund focuses on how much money flows into and out of the district and the balances left at year end that are available for spending. The governmental fund statements provided detailed short term view of the District's general government operations and the basic services it provides.

### Government-Wide Financial Statements

The table below compares the fiscal year ending September 30, 2018 to the fiscal year ending September 30, 2019.

#### *Statement of Net Position*

	September 30, 2018	September 30, 2019
Current & Other Assets	\$ 698,060	\$ 871,793
Capital Assets	2,420,176	2,274,219
Total Assets	3,118,236	3,146,012
Deferred Outflows Related to Pensions	47	1,969
Outstanding Debt	1,602,447	1,475,558
Net Pension Liability	12,557	14,173
Other Liabilities	88,466	68,257
Total Liabilities	1,703,470	1,557,988
Deferred Inflows Related to Pensions	727	17
Net investment in capital assets	817,729	798,661
Restricted Net Position	-	17,569
Unrestricted Net Position	596,356	773,746
Total Net Position	\$ 1,414,085	\$ 1,589,976

*Statement of Activities*

	Ending September 30, 2018	Ending September 30, 2019
Property Tax Revenue	\$ 1,003,779	\$ 1,109,133
Operating Grants and Contributions	1,071	30,699
Gain on sale of fixed assets	-	74,923
Miscellaneous	7,516	14,370
Total Revenue	<u>1,012,366</u>	<u>1,229,125</u>
Professional Fees	50,877	65,262
Other Administrative Expenses	3,953	29,619
Department Expenses	895,631	884,722
Interest Expense	76,301	73,631
Total Expenses	<u>1,026,762</u>	<u>1,053,234</u>
Change in Net Position	<u>\$ (14,396)</u>	<u>\$ 175,891</u>

As of September 30, 2019, the District had net position of \$1,589,976. As of September 30, 2018 net position (as restated) was \$1,414,085 for a net increase of \$175,891.

Total revenue increased by \$216,759 due to property tax revenue increasing \$105,354 and a gain on sale of fixed assets of \$74,923. Total expenses increased \$26,472, primarily due to an increase in depreciation expense of \$11,332 and an increase in professional fees of \$14,385.

General Fund Budget

Differences between the original budget and the actual income/expense are summarized as follows:

- Income was \$210,617 more than budgeted in 2019 primarily due to receiving proceeds on land and a fire truck of \$160,100. The District also received \$29,749 in operating grants and contributions in the current year that were unbudgeted.
- Overall, expenses were \$92,288 more than budgeted in 2019 due to the principal payments related to the financing of self-contained breathing apparatus in 2019 that were unbudgeted.

### Capital Assets

The District owns the following capital assets:

<u>Governmental activities</u>	Balance at Sept. 30, 2018	Additions	Retirements	Balance at Sept. 30, 2019
Capital assets being depreciated				
Buildings	\$ 2,150,767	\$ -	\$ -	\$ 2,150,767
Vehicles	701,671	-	17,677	683,994
Machinery and equipment	171,600	76,753	-	248,353
Land	93,500	-	67,500	26,000
Total at historical cost	<u>3,117,538</u>	<u>76,753</u>	<u>85,177</u>	<u>3,109,114</u>
Less: accumulated depreciation for:				
Buildings	327,033	53,769	-	380,803
Vehicles	300,642	70,322	-	370,964
Machinery and equipment	69,687	13,442	-	83,129
Total accumulated depreciation	<u>697,362</u>	<u>137,533</u>	<u>-</u>	<u>834,895</u>
Total capital assets being depreciated, net	<u>2,420,176</u>	<u>(60,780)</u>	<u>85,177</u>	<u>2,274,219</u>
Governmental activities capital assets, net	<u>\$ 2,420,176</u>	<u>\$ (60,780)</u>	<u>\$ -</u>	<u>\$ 2,274,219</u>

### Long Term Debt

At the end of the 2019 fiscal year, the District owed \$1,475,558 on two loans. The loans were for the construction of a fire station and the purchase of a pumper truck.

### Economic Factors and Next Year's Budget

In October 2018, the District started providing fire protection services by employing staff of the former Sealy Volunteer Fire Department and overseeing its operations. The 2020 budget reflects an increase in overall expenses of \$24,204.

### Contacting the District's Financial Management

This financial report is designed to provide our taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have a question about this report or need additional information, contact Austin County Emergency Services District No. 2, P.O. Box 1485, Sealy, Texas 77474.



Austin County Emergency Services District #2  
Statement of Net Position and Governmental Funds Balance Sheet  
September 30, 2019

	General Fund	Adjustments	Statement of Net Position
<b>ASSETS</b>			
Cash	\$ 535,340	\$ -	\$ 535,340
Investments	293,079	-	293,079
Receivables, tax	33,019	-	33,019
Prepays	-	10,355	(2) 10,355
Capital assets	-	2,274,219	(2) 2,274,219
Total Assets	\$ 861,438	\$ 2,284,574	\$ 3,146,012
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amounts related to pensions	-	1,969	(4) 1,969
<b>LIABILITIES</b>			
Accounts payable	\$ 2,020	\$ -	\$ 2,020
Accrued payroll	25,002	-	25,002
Accrued interest	-	41,235	(1) 41,235
Note payable, due within one year	-	131,993	(1) 131,993
Noncurrent liabilities, due in more than one year			
Note payable, due after one year	-	1,343,565	(1) 1,343,565
Net pension liability	-	14,173	(4) 14,173
Total Liabilities	\$ 27,022	\$ 1,530,966	\$ 1,557,988
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	\$ -	\$ 17	(4) \$ 17
Unavailable revenue	29,497	(29,497)	(3) -
Total deferred inflows of resources	29,497	(29,480)	17
<b>FUND BALANCE / NET POSITION</b>			
Fund Balance:			
Restricted	17,569	(17,569)	-
Assigned	787,351	(787,351)	-
	804,919	(804,919)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 861,438		
Net Position:			
Net investment in capital assets		798,661	798,661
Restricted		17,569	17,569
Unrestricted		773,746	773,746
Total Net Position		\$ 1,589,976	\$ 1,589,976

(1) Long-term liabilities are not recorded until due in the fund financial statements.

(2) Capital assets and prepaids are not financial resources and are not reported in the general fund.

(3) Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

(4) Pension deferred amounts and liabilities are not receivable or due and payable in the current period and, therefore, they are not reported in the funds.

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

Austin County Emergency Services District #2  
Statement of Activities and  
Governmental Fund Statements of Revenues, Expenditures,  
and Changes in Fund Balance  
For the Year Ended September 30, 2019

	General Fund	Adjustments		Statement of Activities
Revenues:				
Property taxes	\$ 1,095,524	\$ 4,045	(3)	\$ 1,099,569
Penalty and interest	9,564	-		9,564
Interest income	8,746	-		8,746
Operating grants and contributions	29,749	950	(4)	30,699
Fundraising income	5,081	-		5,081
Sales proceeds	160,100	(160,100)	(7)	-
Gain on sale of fixed assets	-	74,923	(7)	74,923
Miscellaneous	543	-		543
<b>Total revenues</b>	<b>1,309,308</b>	<b>(80,182)</b>		<b>1,229,125</b>
Expenditures/expenses:				
Current:				
Public Safety				
Appraisal District fees	43,459	(8,581)	(5)	34,878
Professional fees	30,384	-		30,384
Board expenses	5,485	-		5,485
Office	36,557	-		36,557
Payroll expenses	553,705	-		553,705
Pension expense	2,252	(66)	(4)	2,186
Repairs and maintenance	88,952	(22,432)	(4)	66,520
Other expenses	284	-		284
Insurance expense	40,229	(1,480)	(5)	38,749
Firefighter supplies	49,189	-		49,189
Other expenses	24,134	-		24,134
Depreciation expense	-	137,532	(2)	137,532
Capital Outlay	76,753	(76,753)	(2)	-
Debt Service:				
Principal	187,588	(187,588)	(1)	-
Interest	76,882	(3,251)	(4)	73,631
<b>Total expenditures/expenses</b>	<b>1,215,853</b>	<b>(162,618)</b>		<b>1,053,234</b>
<b>Total revenue over (under) expenditures</b>	<b>93,455</b>	<b>82,437</b>		<b>175,891</b>

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

Austin County Emergency Services District #2  
Statement of Activities and  
Governmental Fund Statements of Revenues, Expenditures,  
and Changes in Fund Balance  
For the Year Ended September 30, 2019

	General Fund	Adjustments		Statement of Activities
Other financing sources				
Proceeds from long-term debt	60,697	(60,697)	(6)	-
Insurance proceeds	22,432	(22,432)	(4)	-
Total other financing sources	<u>83,129</u>	<u>(83,129)</u>		<u>-</u>
Change in fund balance/ Change in net position	176,583	(693)		175,891
Fund balance / net position:				
Beginning of year, as previously stated	573,083	629,098		1,202,181
Prior period adjustment resulting from merger (Note 11)	<u>55,253</u>	<u>156,651</u>		<u>211,904</u>
Beginning of year, as adjusted	<u>628,336</u>	<u>785,749</u>		<u>1,414,085</u>
End of the year	<u>\$ 804,919</u>	<u>\$ 785,056</u>		<u>\$ 1,589,976</u>

- (1) Repayment of debt principal is an expenditure in general fund, but the repayment reduces long-term liabilities in the Statement of Net Position.
- (2) General fund reports capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated based upon their estimated useful lives and reported as depreciation expense.
- (3) In the governmental fund, property taxes that are receivable, but not available are not recognized as income and are deferred.
- (4) Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the general fund.
- (5) Expenditures reported in the Statement of Activities are expensed once economic performance has occurred. In the Governmental funds expenditures are recognized when they are paid for.
- (6) General fund reports long-term debt proceeds as revenues, but the proceeds increases long-term liabilities in the Statement of Net Position
- (7) General fund reports proceeds of sales of fixed assets as revenues. However, in the statement of activities the sales of fixed assets result in a gain or loss.

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

Austin County Emergency Services District #2  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended September 30, 2019

	Original Budget	Final Budget	Actual GAAP Basis	Adjustments to Budget Basis	Actual Budget Basis	Variance Over (Under)
Revenues:						
Property taxes	\$ 1,098,690	\$ 1,098,690	\$1,095,524	\$ -	\$1,095,524	\$ (3,166)
Penalty and interest	-	-	9,564	-	9,564	9,564
Interest income	-	-	8,746	-	8,746	8,746
Operating grants and contributions	-	-	29,749	-	29,749	29,749
Fundraising income	-	-	5,081	-	5,081	5,081
Sales proceeds	-	-	160,100	-	160,100	160,100
Miscellaneous	-	-	543	-	543	543
Total revenues	<u>1,098,690</u>	<u>1,098,690</u>	<u>1,309,308</u>	<u>-</u>	<u>1,309,307</u>	<u>210,617</u>
Expenditures:						
Current:						
Public Safety						
Appraisal District fees	35,100	35,100	43,459	-	43,459	8,359
Professional fees	17,400	17,400	30,384	-	30,384	12,984
Board expenses	5,750	5,750	5,485	-	5,485	(265)
Office	27,470	27,670	36,557	-	36,557	8,887
Payroll expenses	572,241	572,241	553,705	-	553,705	(18,536)
Pension expense	5,184	5,184	2,252	-	2,252	(2,932)
Repairs and maintenance	66,411	76,211	88,952	(22,432)	66,520	(9,691)
Other expenses	-	-	284	-	284	284
Insurance expense	40,140	40,140	40,229	-	40,229	89
Firefighter supplies	43,651	43,651	49,189	-	49,189	5,538
Other expenses	34,376	24,376	24,134	-	24,134	(242)
Capital Outlay	52,000	52,000	76,753	-	76,753	24,753
Debt Service						
Principal	201,410	201,410	187,588	76,882	264,470	63,060
Interest	-	-	76,882	(76,882)	-	-
Total expenditures	<u>1,101,133</u>	<u>1,101,133</u>	<u>1,215,853</u>	<u>(22,432)</u>	<u>1,193,421</u>	<u>92,288</u>
Total revenue over (under) expenditures	(2,443)	(2,443)	93,455	22,432	115,886	118,329
Other financing sources						
Proceeds from long-term debt	-	-	60,697	-	60,697	60,697
Insurance proceeds	-	-	22,432	(22,432)	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>83,129</u>	<u>(22,432)</u>	<u>60,697</u>	<u>60,697</u>
Net change in fund balance	(2,443)	(2,443)	176,583	-	176,583	179,026
Fund balance, beginning of year, as adjusted	<u>628,336</u>	<u>628,336</u>	<u>628,336</u>	<u>-</u>	<u>628,336</u>	<u>-</u>
Fund balance, end of the year	<u>\$ 625,893</u>	<u>\$ 625,893</u>	<u>\$ 804,919</u>	<u>\$ -</u>	<u>\$ 804,919</u>	<u>\$ 179,026</u>

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

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
Notes to Basic Financial Statements  
September 30, 2019

1. Summary of significant accounting policies

The accompanying financial statements include all funds of Austin County Emergency Services District No. 2 (the District). The accounting policies of the District conform to generally accepted accounting principles. The following is a summary of the more significant policies:

A. Reporting entity

The District is a political subdivision created under Article III, Section 48-d, of the Texas Constitution by an affirmative vote of the Texas State Legislature. The District operates under Chapter 775 of the Health and Safety Code.

B. Basis of presentation

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. Governmental activities consist of only the general fund, as the general fund is the only fund of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Fund Financial Statements

The operations of the general fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. This fund is a governmental fund which is the general operating fund of the District. It is used to account for all financial resources.

C. Measurement focus and basis of accounting

Measurement Focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, 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 assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
Notes to Basic Financial Statements  
September 30, 2019

In the fund financial statements, the “current financial resources” measurement focus is used. Only current financial assets and liabilities are generally included on this balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. The general fund uses fund balance as its measure of available spendable financial resources at the end of the period.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

D. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

E. Risk management

The District is exposed to various risks of loss from torts: theft of, damage to, and destruction of District assets; business interruption; errors and omissions; injuries; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

F. Income taxes

The District is a political subdivision under the laws of the State of Texas and, therefore, is exempt from federal income tax.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
Notes to Basic Financial Statements  
September 30, 2019

G. Capital assets

Capital assets which include equipment, buildings, and vehicles are reported in the governmental activities column of the government-wide financial statements. The district defines capital assets as assets with an estimated useful life greater than one year. All capital assets are valued at historical cost or estimated historical cost if the actual historical cost is unavailable. Donated capital assets are recorded at estimated fair values. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Improvements are capitalized over the remaining useful lives of the related capital assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation over the following estimated useful lives:

Machinery and equipment	15 years
Buildings	40 years
Vehicles	5-10 years

In the fund financial statements, capital assets used in governmental operations are accounted for as capital outlay expenditures of the governmental fund at the time of acquisition.

H. Fund equity

*Government-wide statements*

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – 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 improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
Notes to Basic Financial Statements  
September 30, 2019

*Fund statements*

Governmental fund equity is classified as fund balance.

*Classification of fund balances*

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, and contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the District to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Board actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the Board or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Board actions. The assigned fund balance is only reported in the General Fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

*Spending Prioritization in Using Available Resources*

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the District budget considers restricted resources to be spent first.



AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
Notes to Basic Financial Statements  
September 30, 2019

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the District's budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

I. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Emergency Services Retirement System (TESRS) and the additions to/deductions from TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Property tax

Property taxes are levied by October 1 of each year for the following calendar year. Taxes are due on receipt of the tax statement and are delinquent if not paid before February 1 of the year following the year of assessment. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes and the payment of any penalties and interest ultimately imposed.

Taxes levied for fiscal years ending September 30, 2019 were at the tax rate of \$0.10 per \$100 valuation. The tax for the 2019 fiscal year was levied in 2018 on property within the District having an assessed valuation of approximately \$1,098,581,817.

3. Stewardship, compliance and accountability

The District adopted its 2019 budget on September 26, 2018. Annual budgets are adopted on a basis consistent with generally accepted accounting principles except for insurance proceeds. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

The following expenditures exceeded budget: Appraisal district fees by \$8,359, professional fees by \$12,984, other expenses by \$9,260, firefighter supplies by \$5,538, capital outlay by \$24,753, and debt service by \$63,060.

4. Cash and investments

At September 30, 2019, the District's cash and investments totaled \$828,419, and consisted of four demand deposit accounts, two certificates of deposits, and investments in an investment pool. The demand deposit accounts have a total balance of \$424,361. Certificates of deposit

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total \$110,979. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District's deposits may not be returned to it. As of September 30, 2019, the District's deposits exceeded FDIC insurance by approximately \$254,000.

The investments in TexPool have a balance of \$293,079 as of September 30, 2019. Authorized investments for TexPool funds include government securities, repurchase and reverse repurchase agreements, certificates of deposit, money market mutual funds and commercial paper. Fair value approximates carrying value. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2019, the District does not have any investments exposed to custodial credit risk.

5. Capital Assets

The following is a summary of capital asset activity during the year ended September 30, 2019.

<u>Governmental activities</u>	Balance at Sept. 30, 2018	Additions	Retirements	Balance at Sept. 30, 2019
Capital assets being depreciated				
Buildings	\$ 2,150,767	\$ -	\$ -	\$ 2,150,767
Vehicles	701,671	-	17,677	683,994
Machinery and equipment	171,600	76,753	-	248,353
Land	93,500	-	67,500	26,000
Total at historical cost	<u>3,117,538</u>	<u>76,753</u>	<u>85,177</u>	<u>3,109,114</u>
Less: accumulated depreciation for:				
Buildings	327,033	53,769	-	380,803
Vehicles	300,642	70,322	-	370,964
Machinery and equipment	69,687	13,442	-	83,129
Total accumulated depreciation	<u>697,362</u>	<u>137,533</u>	<u>-</u>	<u>834,895</u>
Total capital assets being depreciated, net	<u>2,420,176</u>	<u>(60,780)</u>	<u>85,177</u>	<u>2,274,219</u>
Governmental activities capital assets, net	<u>\$ 2,420,176</u>	<u>\$ (60,780)</u>	<u>\$ -</u>	<u>\$ 2,274,219</u>

6. Long-term debt

The District has entered into loan agreements for financing a fire station and a pumper truck used by the Department and a lease purchase agreement for equipment.

*Changes in Long-Term Liabilities.* During the year ended September 30, 2019, the following changes occurred in long-term debt:

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	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<i>September 30, 2019</i>					
Note payable	\$ 1,602,447	\$ -	\$ 126,891	\$ 1,475,558	\$ 131,993
Lease obligation	-	60,907	60,907	-	-
	<u>\$ 1,602,447</u>	<u>\$ 60,907</u>	<u>\$ 187,798</u>	<u>\$ 1,475,558</u>	<u>\$ 131,993</u>

The notes are payable as follows:

	Principal	Interest
2020	\$ 131,993	\$ 69,395
2021	137,489	63,899
2022	143,254	58,134
2023	140,439	52,127
2024	96,614	46,064
2025-2029	560,449	152,942
2030-2031	265,320	20,036
Total payments	<u>\$ 1,475,558</u>	<u>\$ 462,597</u>

Payable to bank at 2.85%, secured by a 2013 Ferrara pumper truck, maturing in 2023 \$ 210,537

Payable to bank at 4.994%, secured by the fire station, maturing in 2031 1,265,021  
\$ 1,475,558

7. Pension plan

*Plan Description*

The District participates in a cost-sharing multiple employer pension plan, the Texas Emergency Services Retirement System (TESRS). The plan is established and administered by the State of Texas to provide pension benefits for emergency service personnel who serve without significant monetary remuneration. At August 31, 2019, there were 237 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2019, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,649
Terminated Members Entitled to benefits but Not Yet Receiving Them	1,842
Active Participants (Vested and Non-vested)	3,702

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*Pension Plan Fiduciary Net Position*

Detailed information about the TESRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at [www.tesrs.org](http://www.tesrs.org). The separately issued actuarial valuation which may be of interest are also available at the same link.

*Benefits Provided*

Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by Board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching the age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of the duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

*Funding Policy*

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

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The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to fifteen years of credit for prior service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by the local governing bodies on a pay-as-you-go basis for the members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefits paid by the System.

*Contributions*

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2019, total contributions (dues, prior service, and interest on prior service financing) of \$2,252 were paid by the District. The State appropriated \$1,329,224 for the fiscal year ending August 31, 2019, to plan as a whole.

*Actuarial Assumptions*

The total pension liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	8/31/2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value

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Notes to Basic Financial Statements  
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Actuarial Assumptions:

Investment Rate of Return*	7.75%
Projected Salary Increase	N/A
*Includes Inflation At	3.00%
Cost of Living Adjustments	None

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.00%). In addition, the final 7.75% assumption reflected a reduction of 0.26% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities		
Large Cap Domestic	32.00%	5.81%
Small Cap Domestic	15.00%	5.92%
Developed International	15.00%	6.21%
Emerging Markets	5.00%	7.18%
Master Limited Partnership	5.00%	7.61%
Real Estate	5.00%	4.46%
Fixed Income	23.00%	1.61%
Cash	0.00%	0.00%
	<u>100.00%</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
Notes to Basic Financial Statements  
September 30, 2019

*Sensitivity of the Net Pension Liability to changes in the discount rate*

The following presents the net pension liability of the District, calculated using the discount rate of 7.75%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 25,190	\$ 14,173	\$ 6,798

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At August 31, 2019, the District reported a liability of \$14,173 for its proportionate share of the plan's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 14,173
State's proportionate share that is associated with the District	4,204

*\*Calculated using the District's proportionate share of contributions multiplied by the State's share of the collective net pension liability.*

The net pension liability was measured as of August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 through August 31, 2019.

At August 31, 2019, the employer's proportion of the collective net pension liability was 0.05%.

There were changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period, including the mortality rate improvement projection.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
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There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2019 the District recognized pension expense of \$2,330. The District recognized on-behalf revenues of \$950 calculated by taking the State's total contributions to TESRS multiplied by the State's proportionate share.

At August 31, 2019, the District reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 1,825	\$ -
Contributions made subsequent to measurement date	144	-
Changes in assumptions	-	-
Differences between expected and actual experience	-	17
	\$ 1,969	\$ 17

\$

144 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30	Pension Expense
2020	\$ 385
2021	202
2022	448
2023	773
	\$ 1,808

8. Net position/Fund balance

The District has restricted \$17,569 of its fund balance for a memorial. The remaining portion of its fund balance is assigned for future capital expenses and contingencies. As of September 30, 2019, the District has \$17,569 in net position restricted for a memorial.



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9. Ground lease agreement

The District has entered into a ground lease agreement with the City of Sealy, Texas effective June 22, 2011. The agreement provides for the District to build a new fire station on premises that will be leased from the City. The lease is for a 30-year term, ending on June 30, 2041, however, the District can renew the lease for an additional 30-year term. As part of the agreement, the District agrees to pay one dollar per year to the City.

10. Commitments

In February 2019, the District sold land to the County for \$95,000 to build a new EMS building. Per the agreement, if the County does not build on the land in four years, the land is to be sold back to the District at the same price.

11. Merger

In October 2018, the Board terminated its service agreement with the Sealy Volunteer Fire Department (the “Department”). All operations of the Department were merged with the District. The District received \$156,651 in capital assets and \$55,253 in cash.

The capital assets received were recorded at the carrying value of the asset at the time of the merger. The capital assets and cash received were recorded as an adjustment to the District’s beginning fund balance/net position.

12. Subsequent events

In November 2019, the Board committed to purchase an apparatus for \$584,957. The truck is scheduled to be delivered in December 2020.

Subsequent to year-end, the Coronavirus (COVID-19) pandemic impacted the nation as a whole, leading to consumer uncertainties and financial setbacks for many businesses and individuals. COVID-19 may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. Management continues to monitor and evaluate the continually evolving environment associated with the virus. While it is not possible at this time to estimate the impact that COVID-19 will have on the District’s operations, the pandemic could adversely affect the District’s financial position and activities.

Required Supplementary Information

Austin County Emergency Services District #2  
Required Supplementary Information  
September 30, 2019

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)**  
Last 10 Years (will ultimately be displayed)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.050%	0.058%	0.045%	0.059%	0.085%
District's proportionate share of the net pension liability	\$ 14,173	\$ 12,557	\$ 10,801	\$ 17,186	\$ 22,689
State's proportionate share of the net pension liability	4,204	3,485	3,537	5,941	7,865
Total	<u>\$ 18,377</u>	<u>\$ 16,042</u>	<u>\$ 14,338</u>	<u>\$ 23,127</u>	<u>\$ 30,554</u>
Number of Active Members*	N/A	7	7	5	9
District's Net Pension Liability per Active Member	N/A	\$ 1,794	\$ 1,543	\$ 3,437	\$ 2,521
Covered Payroll	\$ 553,705	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered employee payroll	3.30%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	80.20%	84.30%	81.40%	76.30%	76.90%

\*There is no compensation for active members prior to September 30, 2018. Number of active members is used instead.

**Notes to Schedule:**

Changes in benefit terms - There were no changes in benefit terms that affected the measurement of the total pension liability during the measurement period.

Changes in assumptions - There were changes of assumptions or other inputs that affected the measurement of the total pension liability during the measurement period, including the mortality rate improvement projection.

Austin County Emergency Services District #2  
 Required Supplementary Information  
 September 30, 2019

**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)**  
 Last 10 Years (will ultimately be displayed)

	<u>8/31/2019</u>	<u>8/31/2018</u>	<u>8/31/2017</u>	<u>8/31/2016</u>	<u>8/31/2015</u>
Contractually required contribution	\$ 2,252	\$ 2,788	\$ 2,160	\$ 2,700	\$ 3,996
Contributions in relation to the contractually required contribution	<u>2,252</u>	<u>2,788</u>	<u>2,160</u>	<u>2,700</u>	<u>3,996</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Number of Active Members	4	7	7	5	9
Contributions per Active Member	\$ 563	\$ 398	\$ 309	\$ 540	\$ 444
Covered employee payroll	\$ 553,705	N/A	N/A	N/A	N/A
Contribution as a percentage of covered payroll	0.41%	N/A	N/A	N/A	N/A

**Notes to Schedule of Contributions:**

\*There is no compensation for active members prior to September 30, 2018. Number of active members is used instead.