

AUSTIN COUNTY EMERGENCY
SERVICES DISTRICT NO. 2

Financial Statements
with
Report of Independent Auditor

September 30, 2021

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CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS ADVISORS

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, 2021, 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, 2021, 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 25 through 26, 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
March 4, 2022



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, 2021. 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, 2020 to the fiscal year ending September 30, 2021.

Statement of Net Position

	September 30, 2020	September 30, 2021
Current & Other Assets	\$ 931,171	\$ 1,271,564
Capital Assets	2,157,774	2,659,928
Total Assets	<u>3,088,945</u>	<u>3,931,492</u>
Deferred Outflows Related to Pensions	187	144
Outstanding Debt	1,376,137	1,997,513
Net Pension Liability	9,076	3,857
Other Liabilities	75,003	60,686
Total Liabilities	<u>1,460,216</u>	<u>2,062,056</u>
Deferred Inflows Related to Pensions	447	3,770
Net investment in capital assets	781,637	662,415
Restricted Net Position	17,569	17,569
Unrestricted Net Position	829,264	1,185,826
Total Net Position	<u>\$ 1,628,470</u>	<u>\$ 1,865,810</u>

Statement of Activities

	For the Year Ending September 30, 2020	For the Year Ending September 30, 2021
Property Tax Revenue	\$ 1,137,523	\$ 1,175,740
Sales Tax Revenue	-	121,911
Operating Grants and Contributions	44,167	55,800
Gain on sale of fixed assets	-	190,630
Miscellaneous	5,451	2,781
Total Revenue	<u>1,187,141</u>	<u>1,546,862</u>
Professional Fees	69,032	70,859
Other Administrative Expenses	24,293	18,549
Department Expenses	989,573	1,145,727
Interest Expense	65,750	74,386
Total Expenses	<u>1,148,648</u>	<u>1,309,521</u>
Change in Net Position	<u>\$ 38,493</u>	<u>\$ 237,341</u>

As of September 30, 2021, the District had net position of \$1,865,810. As of September 30, 2020 net position was \$1,628,469 for a net increase of \$237,341.

Current assets increased \$340,393 in the current year primarily due to an increase in cash and sales tax receivables. Capital assets increased \$502,154 primarily due to the purchase of a new fire truck. Outstanding debt increased \$621,376 primarily due to the addition of a new note payable for the purchase of a fire truck.

Total revenue increased \$359,721 in the current year primarily due to sales tax revenue of \$121,911 and a gain on the sale of fixed assets of \$190,630. Total expenses increased \$160,873, primarily due to an increase in payroll expenses of \$20,049, office expenses of \$12,354, repairs and maintenance of \$57,920, firefighter supplies of \$13,699 and depreciation of \$52,238.

General Fund Budget

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

- Income was \$431,262 more than budgeted in 2021 primarily due to receiving \$121,911 in sales tax and \$259,730 in proceeds from sales of fixed assets in the current year that were unbudgeted.
- Overall, expenses were \$824,885 more than budgeted in 2021 due to capital outlay exceeding the budget by \$753,769 for the purchase of a new fire truck, two new vehicles, and new fire equipment. Repairs and maintenance exceeding the budget by \$73,090 for additional repairs needed on multiple trucks in the current year.

Capital Assets

The District owns the following capital assets:

<u>Governmental activities</u>	Balance at Sept. 30, 2020	Additions	Retirements	Balance at Sept. 30, 2021
Capital assets being depreciated				
Buildings	\$ 2,150,767	\$ -	\$ -	\$ 2,150,767
Vehicles	683,994	801,662	499,920	985,736
Machinery and equipment	274,476	14,399	3,522	285,353
Land	26,000	-	26,000	-
Total at historical cost	<u>3,135,237</u>	<u>816,061</u>	<u>529,442</u>	<u>3,421,856</u>
Less: accumulated depreciation for:				
Buildings	434,572	53,769	-	488,341
Vehicles	441,051	118,439	408,268	151,222
Machinery and equipment	101,842	22,599	2,074	122,366
Total accumulated depreciation	<u>977,464</u>	<u>194,807</u>	<u>410,342</u>	<u>761,929</u>
Total capital assets being depreciated, net	<u>2,157,774</u>	<u>621,254</u>	<u>119,100</u>	<u>2,659,928</u>
Governmental activities capital assets, net	<u><u>\$ 2,157,774</u></u>	<u><u>\$ 621,254</u></u>	<u><u>\$ 119,100</u></u>	<u><u>\$ 2,659,928</u></u>

This year's major additions included:

Fire apparatus	\$591,826
2020 Ford F-250 Rescue truck	121,689
2021 Chevy Silverado 1500	49,355
Fire Equipment	14,399

Long Term Debt

In 2021, the District borrowed approximately \$750,000 for the purchase of a new fire apparatus and a rescue truck. At the end of the 2021 fiscal year, the District owed \$1,997,513 on four loans, which \$246,968 is due within one year. The loans were for the fire station and the purchase of three trucks.

Economic Factors and Next Year's Budget

The 2022 budget reflects an increase in overall expenses of \$244,895. The increase is offset by a budgeted increase in property tax and sales tax revenue.

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, 2021

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 885,441	\$ -	\$ 885,441
Investments	295,897	-	295,897
Property tax receivable	33,882	-	33,882
Sales tax receivable	42,317	-	42,317
Prepays	-	14,026 (2)	14,026
Capital assets	-	2,659,928 (2)	2,659,928
Total Assets	\$ 1,257,537	\$ 2,673,955	\$ 3,931,492
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	-	144 (4)	144
LIABILITIES			
Accounts payable	\$ 5,390	\$ -	\$ 5,390
Accrued payroll	7,653	-	7,653
Accrued interest	-	47,643 (1)	47,643
Note payable, due within one year	-	246,968 (1)	246,968
Noncurrent liabilities, due in more than one year			
Note payable, due after one year	-	1,750,545 (1)	1,750,545
Net pension liability	-	3,857 (4)	3,857
Total Liabilities	\$ 13,043	\$ 2,049,013	\$ 2,062,056
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	\$ -	\$ 3,770 (4)	\$ 3,770
Unavailable revenue	31,256	(31,256) (3)	-
Total deferred inflows of resources	31,256	(27,486)	3,770
FUND BALANCE / NET POSITION			
Fund Balance:			
Restricted	17,569	(17,569)	-
Assigned	1,195,669	(1,195,669)	-
	1,213,238	(1,213,238)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,257,537		
Net Position:			
Net investment in capital assets		662,415	662,415
Restricted		17,569	17,569
Unrestricted		1,185,826	1,185,826
Total Net Position		\$ 1,865,810	\$ 1,865,810

- (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, 2021

	General Fund	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 1,162,370	\$ (832) (3)	\$ 1,161,538
Penalty and interest	14,202	-	14,202
Sales tax revenue	121,911	-	121,911
Interest income	1,588	-	1,588
Operating grants and contributions	55,139	661 (4)	55,800
Proceeds from sale of assets	259,730	(259,730) (7)	-
Gain on sale of fixed assets	-	190,630 (7)	190,630
Miscellaneous	1,193	-	1,193
Total revenues	1,616,133	(69,271)	1,546,862
Expenditures/expenses:			
Current:			
Public Safety			
Appraisal District fees	43,910	(1,166) (5)	42,744
Professional fees	28,115	-	28,115
Board expenses	3,906	-	3,906
Office	44,228	-	44,228
Payroll expenses	597,027	-	597,027
Payroll taxes	46,289	-	46,289
Pension expense	1,728	(1,192) (4)	536
Repairs and maintenance	158,316	-	158,316
Advertising expense	28	-	28
Insurance expense	52,533	(1,568) (5)	50,965
Firefighter supplies	53,531	-	53,531
Other expenses	14,643	-	14,643
Depreciation expense	-	194,807 (2)	194,807
Capital Outlay	777,269	(777,269) (2)	-
Debt Service:			
Principal	131,657	(131,657) (1)	-
Interest	70,555	3,831 (4)	74,386
Total expenditures/expenses	2,023,735	(714,214)	1,309,521
Total revenue over (under) expenditures	(407,602)	644,943	237,341

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, 2021

	General Fund	Adjustments	Statement of Activities
Other financing sources			
Proceeds from long-term debt	753,034	(753,034)	(6) -
Insurance proceeds	50,000	(50,000)	(7) -
Total other financing sources	<u>803,034</u>	<u>(803,034)</u>	<u>-</u>
Change in fund balance/ Change in net position	395,432	(158,091)	237,341
Fund balance / net position:			
Beginning of year	817,806	810,663	1,628,469
End of the year	<u>\$ 1,213,238</u>	<u>\$ 652,572</u>	<u>\$ 1,865,810</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.
- (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 and insurance proceeds as revenues. However, in the statement of activities the sales and involuntary conversion 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, 2021

	Original/Final Budget	Actual GAAP Basis	Adjustments to Budget Basis	Actual Budget Basis	Variance Over (Under)
Revenues:					
Property taxes	\$ 1,161,371	\$1,162,370	\$ -	\$1,162,370	\$ 999
Penalty and interest	-	14,202	-	14,202	14,202
Sales tax revenue	-	121,911	-	121,911	121,911
Interest income	-	1,588	-	1,588	1,588
Operating grants and contributions	23,500	55,139	-	55,139	31,639
Proceeds from sale of fixed assets	-	259,730	-	259,730	259,730
Miscellaneous	-	1,193	-	1,193	1,193
Total revenues	1,184,871	1,616,133	-	1,616,133	431,262
Expenditures:					
Current:					
Public Safety					
Appraisal District fees	43,344	43,910	-	43,910	566
Professional fees	15,560	28,115	-	28,115	12,555
Board expenses	6,750	3,906	-	3,906	(2,844)
Office	40,317	44,228	-	44,228	3,911
Payroll expenses	672,000	597,027	46,289	643,316	(28,684)
Payroll taxes	-	46,289	(46,289)	-	-
Pension expense	4,000	1,728	-	1,728	(2,272)
Repairs and maintenance	85,226	158,316	-	158,316	73,090
Advertising expense	-	28	-	28	28
Insurance expense	52,060	52,533	-	52,533	473
Firefighter supplies	51,684	53,531	-	53,531	1,847
Other expenses	999	14,643	-	14,643	13,644
Capital Outlay	23,500	777,269	-	777,269	753,769
Debt Service					
Principal	201,410	131,657	70,555	202,212	802
Interest	2,000	70,555	(70,555)	-	(2,000)
Total expenditures	1,198,850	2,023,735	-	2,023,735	824,885
Total revenue over (under) expenditures	(13,979)	(407,602)	-	(407,602)	(393,623)
Other financing sources					
Proceeds from long-term debt	-	753,034	-	753,034	753,034
Insurance proceeds	-	50,000	-	50,000	50,000
Total other financing sources	-	803,034	-	803,034	803,034
Net change in fund balance	(13,979)	395,432	-	395,432	409,411
Fund balance, beginning of year	817,806	817,806	-	817,806	-
Fund balance, end of the year	\$ 803,827	\$1,213,238	\$ -	\$1,213,238	\$ 409,411

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, 2021

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, 2021

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, 2021

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	5-10 years
Buildings	25 years
Other improvements	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 “net investment in capital assets.”

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2021

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, 2021

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, 2021 were at the tax rate of \$0.10 per \$100 valuation. The tax for the 2021 fiscal year was levied in 2020 on property within the District having an assessed valuation of approximately \$1,161,146,775.

3. Stewardship, compliance and accountability

The District adopted its 2021 budget on September 4, 2020. 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 \$566, professional fees by \$12,555, office expenses by \$3,911, repairs and maintenance by \$73,090, advertising expenses by \$28, insurance expense by \$473, firefighter supplies by \$1,847, other expenses by \$13,644, capital outlay by \$753,769, and debt service principal by \$802.

4. Cash and investments

At September 30, 2021, the District's cash and investments totaled \$1,181,338, and consisted of four demand deposit accounts, two certificates of deposits, and investments in an

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Notes to Basic Financial Statements
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investment pool. The demand deposit accounts have a total balance of \$772,713. Certificates of deposit total \$112,727. 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. Of the bank and certificates of deposit balances, \$305,519 was covered by federal depository insurance at two financial institutions and \$604,664 was collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

The investments in TexPool have a balance of \$295,897 as of September 30, 2021. 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, 2021, 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, 2021.

<u>Governmental activities</u>	Balance at Sept. 30, 2020	Additions	Retirements	Balance at Sept. 30, 2021
Capital assets being depreciated				
Buildings	\$ 2,150,767	\$ -	\$ -	\$ 2,150,767
Vehicles	683,994	801,662	499,920	985,736
Machinery and equipment	274,476	14,399	3,522	285,353
Land	26,000	-	26,000	-
Total at historical cost	<u>3,135,237</u>	<u>816,061</u>	<u>529,442</u>	<u>3,421,856</u>
Less: accumulated depreciation for:				
Buildings	434,572	53,769	-	488,341
Vehicles	441,051	118,439	408,268	151,222
Machinery and equipment	101,842	22,599	2,074	122,366
Total accumulated depreciation	<u>977,464</u>	<u>194,807</u>	<u>410,342</u>	<u>761,929</u>
Total capital assets being depreciated, net	<u>2,157,774</u>	<u>621,254</u>	<u>119,100</u>	<u>2,659,928</u>
Governmental activities capital assets, net	<u>\$ 2,157,774</u>	<u>\$ 621,254</u>	<u>\$ 119,100</u>	<u>\$ 2,659,928</u>

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
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6. Long-term debt

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<i>September 30, 2021</i>					
Notes payable	\$ 1,376,137	\$ 753,034	\$ 131,657	\$1,997,513	\$ 246,968
	<u>\$ 1,376,137</u>	<u>\$ 753,034</u>	<u>\$ 131,657</u>	<u>\$1,997,513</u>	<u>\$ 246,968</u>

Debt outstanding at September 30, 2021 for the District is comprised of the following:

	<u>2021</u>
Payable to bank at 2.85%, secured by a 2013 Ferrara pumper truck, maturing in 2023	\$ 103,643
Payable to bank at 4.994%, secured by the fire station, maturing in 2031	1,102,044
Payable to bank at 2.75%, secured by a fire truck, maturing in 2028	631,826
Payable to bank at 2.75%, secured by a 2020 truck, maturing in 2028	160,000
	<u>\$ 1,997,513</u>

The annual debt service requirement to maturity for all notes payable outstanding debt as of September 30, 2021 follows:

	<u>Year Ending September 30:</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 246,968	\$ 80,801
2023	247,508	71,050
2024	207,027	62,032
2025	214,889	54,171
2026	223,074	45,985
2027-2031	858,047	105,485
Total payments	<u>\$ 1,997,513</u>	<u>\$ 419,523</u>

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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, 2021, there were 239 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, 2021, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,843
Terminated Members Entitled to benefits but Not Yet Receiving Them	1,706
Active Participants (Vested and Non-vested)	3,571

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. The separately issued actuarial valuation which may be of interest are also available at the same link.

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th 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.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
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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.

The Board rule defining contributions was amended effective in 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, 2021,

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2021

total contributions (dues, prior service, and interest on prior service financing) of \$1,728 were paid by the District. The State appropriated \$1,329,224 for the fiscal year ending August 31, 2021, to the plan as a whole.

Actuarial Assumptions

The total pension liability in the August 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	8/31/2020
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

Actuarial Assumptions:

Investment Rate of Return*	7.50%
Projected Salary Increase	N/A
*Includes Inflation At	3.00%
Cost of Living Adjustments	None

Mortality rates were based on the PubS2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019.

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 (currently 4.6%) and by adding expected inflation (3.0%). In addition, the final 7.5% assumption was selected by rounding down. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

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September 30, 2021

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities		
Large Cap Domestic	20.00%	5.83%
Small/mid Cap Domestic	10.00%	5.94%
Developed International	15.00%	6.15%
Emerging Markets	5.00%	7.25%
Global Infrastructure	5.00%	6.41%
Real Estate	10.00%	4.48%
Multi asset income	5.00%	3.84%
Fixed Income	30.00%	1.99%
Cash	0.00%	0.00%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. No projection of cash flows was used to determine the discount rate because the August 31, 2020 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.

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 7.5%, 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
District's proportionate share of the net pension liability	\$ 12,606	\$ 3,857	\$ (1,984)

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2021

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

At August 31, 2021, the District reported a liability of \$3,857 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	\$	3,857
State's proportionate share that is associated with the District		1,068

**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, 2021 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, 2020 through August 31, 2021.

At August 31, 2021, the employer's proportion of the collective net pension liability was 0.036%.

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. 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, 2021 the District recognized pension expense of \$536. The District recognized on-behalf revenues of \$661 calculated by taking the State's total contributions to TESRS multiplied by the State's proportionate share.

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At August 31, 2021, 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	\$ -	\$ 3,612
Contributions made subsequent to measurement date	144	-
Changes in assumptions	-	5
Differences between expected and actual experience	-	153
	\$ 144	\$ 3,770

\$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, 2022. 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
2022	\$(1,019)
2023	(627)
2024	(1,184)
2025	(940)
	\$(3,770)

8. Net position/Fund balance

The District has restricted \$17,569 of its fund balance and net position for a memorial. As of September 30, 2021, the remaining portion of its fund balance is assigned for future capital expenses and contingencies.

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.

Required Supplementary Information

Austin County Emergency Services District #2
 Required Supplementary Information
 September 30, 2021

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.036%	0.036%	0.050%	0.058%	0.045%	0.059%	0.085%
District's proportionate share of the net pension liability	\$ 3,857	\$ 9,076	\$ 14,173	\$ 12,557	\$ 10,801	\$ 17,186	\$ 22,689
State's proportionate share of the net pension liability	1,068	2,587	4,204	3,485	3,537	5,941	7,865
Total	<u>\$ 4,925</u>	<u>\$ 11,663</u>	<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	N/A	N/A	7	7	5	9
District's Net Pension Liability per Active Member	N/A	N/A	N/A	\$ 1,794	\$ 1,543	\$ 3,437	\$ 2,521
Covered Payroll	\$ 585,957	\$ 576,978	\$ 553,705	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered employee payroll	0.84%	2.02%	3.30%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	93.10%	83.20%	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, 2021

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

	<u>8/31/2021</u>	<u>8/31/2020</u>	<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	\$ 1,728	\$ 1,692	\$ 2,252	\$ 2,788	\$ 2,160	\$ 2,700	\$ 3,996
Contributions in relation to the contractually required contribution	<u>1,728</u>	<u>1,692</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
Number of Active Members	10	10	4	7	7	5	9
Contributions per Active Member	\$ 173	\$ 169	\$ 563	\$ 398	\$ 309	\$ 540	\$ 444
Covered employee payroll	\$ 585,957	\$ 576,978	\$ 553,705	N/A	N/A	N/A	N/A
Contribution as a percentage of covered payroll	0.30%	0.29%	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.