

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

FORT BEND COUNTY, TEXAS

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

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Board of Commissioners
Fort Bend County Emergency Services District No. 2
Fort Bend County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the general fund of Fort Bend County Emergency Services District No. 2, Fort Bend County, Texas, as of and for the year ended December 31, 2013, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the general fund of Fort Bend County Emergency Services District No.2, Fort Bend County, Texas, as of December 31, 2013, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 7 and 21 through 22 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 the 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 sufficient evidence to express an opinion or provide any assurance.

May 21, 2014

A handwritten signature in cursive script, appearing to read "Ubernosky & Majeres, PLLC".

UBERNOSKY & MAJERES, PLLC

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2013

Our discussion and analysis of the Fort Bend Emergency Services District No.2's financial performance provides an overview of the district's financial activities for the fiscal year ended December 31, 2013. Please review it in conjunction with the District's financial statements which begin on page 8 of this report.

FINANCIAL HIGHLIGHTS

- Total net assets at December 31, 2013 were \$15,874,062 as compared to \$14,029,971 as of December 31, 2012, representing an increase in total net assets of \$1,844,091 or 13%.
- The total 2013 assessed tax levy of the District, which will be used to fund operations for the 2014 calendar year, is \$4,162,532 as compared to the total 2012 assessed tax levy of \$3,790,020, an increase of \$372,512 or 10%.
- The District incurred \$2,409,888 of expenses during the year ended December 31, 2013 as compared to \$1,789,031 for the year ended December 31, 2012, representing an increase in expenses of \$620,857 or 35%.
- The general fund reported a fund balance of \$7,912,794 at December 31, 2013 as compared to \$6,364,924 as of December 31, 2012, representing an increase in general fund balance of \$1,547,870 or 24%.
- During the year ended December 31, 2013, the district incurred \$1,532,124 of indebtedness related to the construction financing of a new fire station.
- As of December 31, 2013, the District has identified approximately \$1,275,000 of future capital expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8-9) provide information about the activities of the District as a whole. Fund financial statements are included on pages 10-13. The notes provide additional information essential to a full understanding of the data provided in the government-wide financial statements (statement of net assets and the statement of activities), and the fund financial statements. The notes to the basic financial statements can be found on pages 14-20 of this report.

The government-wide financial statements are designed to present a longer-term view of an entity's finances and are prepared under the *full accrual basis of accounting*. These statements include all of the assets and liabilities of the District using methods similar to those used by private-sector companies.

Fund financial statements use a *modified accrual basis of accounting* and focus on sources and uses of cash in the near term, measuring cash and all other financial assets that can be readily converted to cash.

The District's services are reported through one governmental fund, the General Fund.

DISTRICT FINANCIAL SUMMARY

The District levies property taxes on residents of the District to cover the costs of providing emergency services. Below is a summary of the taxes assessed for the years ended December 31, 2013 and 2012.

	For the Years ended December 31,	
	<u>2013</u>	<u>2012</u>
Total Property Valuations	\$ 4,247,481,633	\$ 3,867,367,347
Tax Rate per \$100 Valuation	<u>.000980</u>	<u>.000980</u>
Taxes Assessed	<u>\$ 4,162,532</u>	<u>\$ 3,790,020</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2013

DISTRICT FINANCIAL SUMMARY (continued)

The collections received from the tax levy and the cost of providing emergency services and other general expenses of the District are summarized below:

	For the Years ended December 31,	
	<u>2013</u>	<u>2012</u>
Property Tax Revenue	\$ 4,197,219	\$ 3,871,924
Penalties and Interest	10,367	12,066
Interest Income	36,891	35,261
Donations	5,000	5,722
Miscellaneous	4,502	1,346
Fire Service Revenue	-	450
False Alarm Fees	-	400
Cost of Emergency Services	(2,022,582)	(1,536,592)
General Government	(337,646)	(252,439)
Interest on Long Term Debt	(49,660)	(-)
 Increase in Net Assets	 <u>\$ 1,844,091</u>	 <u>\$ 2,138,138</u>

The District's total net assets as of December 31, 2013 and 2012 are summarized below:

	As of December 31,		
	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets (non-capital)	\$ 12,094,923	\$ 10,206,628	\$ 1,888,295
Assets (capital)	7,219,153	5,973,305	1,245,848
Liabilities (current)	(98,750)	(308,591)	209,841
Liabilities (non-current)	(3,341,264)	(1,841,371)	(1,499,893)
 Net Assets	 <u>\$ 15,874,062</u>	 <u>\$ 14,029,971</u>	 <u>\$ 1,844,091</u>

Following is a summary of the differences between the District's significant budgeted amounts vs. actual amounts reported in the general fund for the year ended December 31, 2013, which is more fully detailed on page 21 of this report:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues:</u>			
Property Tax Revenue	\$ 3,716,082	\$ 3,824,707	\$ 108,625
Penalties and Interest	-	10,367	10,367
Interest Income	25,000	36,891	11,891
Other	416,450	9,502	(406,948)
 <u>Expenditures:</u>			
Purchase of Capital Assets	1,143,037	253,330	889,707
Emergency Services	2,028,600	1,724,641	303,959
Principal & Interest	404,846	17,980	386,866
Other General Expenses	488,226	337,646	150,580
Contingencies	92,000	-	92,000
 Net Variance - Favorable	 <u>\$ 823</u>	 <u>\$ 1,547,870</u>	 <u>\$ 1,547,047</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2013

The Commissioners of the District as of the date of this report are as follows:

Mr. John Schwin, President

Mr. Robert Miller, Vice President

Mr. Jack Hazel, Treasurer

Mr. Thomas M. Raia Jr, Secretary

Ms. Marti Thorne, Asst. Treasurer

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF NET ASSETS

DECEMBER 31, 2013

ASSETS:

CURRENT ASSETS:

Cash	\$ 3,837,744
Certificates of deposit	3,932,025
Short term investments	1,655,871
Taxes receivable	1,712,853
Due from tax assessor/collector	945,152
Prepays and other current assets	11,278
	<hr/>
Total Current Assets	12,094,923

NON-CURRENT ASSETS:

Capital Assets:	
Buildings and improvements	4,980,943
Emergency service equipment	3,876,138
Station furniture and equipment	319,438
Land	56,050
Accumulated depreciation	(2,013,416)
	<hr/>
Total Non-Current Assets	7,219,153
	<hr/>
Total Assets	19,314,076

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	19,597
Interest payable	46,922
Current portion of long term debt	32,231
	<hr/>
Total Current Liabilities	98,750

NON-CURRENT LIABILITIES:

Long-term debt	3,341,264
	<hr/>
Total Liabilities	3,440,014

NET ASSETS:

Investments in capital assets - net of related debt	3,845,658
Restricted:	
Security interest on long-term debt	765,235
Prepaid expenses	11,278
Committed:	
Emergency operations	3,000,000
Capital asset replacement	1,981,454
Unrestricted net assets	6,270,437
	<hr/>
Total Net Assets	\$ 15,874,062

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

<u>FUNCTIONS/PROGRAMS:</u>	<u>Expenses</u>	<u>Contributions</u>	<u>Net (Expense) Revenue</u>
Primary Government:			
Governmental Activities:			
Public safety - emergency services	\$ 2,022,582	\$ -	\$ (2,022,582)
General government	337,646	-	(337,646)
Interest on long term debt	49,660	-	(49,660)
Total Government Activities	<u>\$ 2,409,888</u>	<u>\$ -</u>	<u>(2,409,888)</u>
 <u>GENERAL REVENUES:</u>			
Property taxes			4,197,219
Penalties and interest			10,367
Interest income			36,891
Donations			5,000
Miscellaneous			<u>4,502</u>
Total General Revenues			<u>4,253,979</u>
Change in Net Assets			1,844,091
Net Assets - Beginning of Year			<u>14,029,971</u>
Net Assets - End of Year			<u>\$ 15,874,062</u>

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

BALANCE SHEET - GOVERNMENTAL FUND

DECEMBER 31, 2013

ASSETS:

Cash	\$ 3,837,744
Certificates of deposit	3,932,025
Short term investments	1,655,871
Taxes receivable	1,712,853
Due from tax assessor/collector	945,152
Prepays and other current assets	11,278
	<hr/>
Total Assets	\$ 12,094,923
	<hr/>

LIABILITIES AND FUND BALANCE:

LIABILITIES:

Accounts payable	\$ 19,597
Deferred tax revenue	4,162,532
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Total Liabilities	4,182,129
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FUND BALANCE:

Nonspendable:	
Prepaid expenses	11,278
Restricted for:	
Security interest on debt	765,235
Committed for:	
Emergency operations	3,000,000
Capital asset replacement	1,981,454
Unassigned	2,154,827
	<hr/>
Total Fund Balance	7,912,794
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Total Liabilities and Fund Balance	\$ 12,094,923
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The accompanying notes to the basic financial statements
are an integral part of this financial statement.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

BALANCE SHEET - GOVERNMENTAL FUND

DECEMBER 31, 2013

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Total Government Fund Balance:</u>	\$ 7,912,794
Capital assets used in governmental activities are not financial resources and therefore are not recorded in the governmental fund financial statements.	9,232,569
Accumulated depreciation has not been included in the governmental fund financial statements.	(2,013,416)
Deferred revenues are recorded in the funds, but are not deferred under the measurement focus employed in the Statement of Net Assets.	4,162,532
Interest expense is accrued on outstanding debt in the statement of net assets, whereas in the governmental fund financial statements, an interest expenditure is reported when due.	(46,922)
Obligations incurred under debt financed construction are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,373,495)</u>
<u>Net Assets of Governmental Activities:</u>	<u>\$ 15,874,062</u>

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

REVENUES:

Property taxes	\$ 3,824,707
Penalties and interest	10,367
Interest income	36,891
Miscellaneous	4,502
Donations	5,000
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Total Revenues	3,881,467

EXPENDITURES:

Wages and payroll taxes - firefighters	1,404,540
Repairs and maintenance	276,931
Purchase of capital assets - net	253,330
Insurance	65,656
Legal and professional fees	58,436
Wages and payroll taxes - administration	56,555
Consumables	54,909
Utilities	36,214
Fuel	23,824
Office expenses	22,044
Tax collector fees	21,547
Telephone and communications	19,860
Fire station construction loan interest	17,980
Travel and meals	9,504
Appraisal district fees	7,825
Commissioners fees and expenses	4,442
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Total Expenditures	2,333,597
	<hr/>
Excess of Revenues Over Expenditures	1,547,870
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Fund Balance - Beginning of Year	6,364,924
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Fund Balance - End of Year	\$ 7,912,794

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Net Change in Government Fund Balance:</u>	\$ 1,547,870
Government funds report capital outlays as expenditures, whereas those costs are shown as increases in capital assets in the statement of activities.	253,330
Depreciation is not recognized as an expense in the government fund since it does not require the use of current financial resources.	(297,941)
Deferred revenues are recorded in the funds, but are not deferred under the measurement focus employed in the Statement of Net Assets.	372,512
Interest expense is accrued on outstanding debt in the statement of net assets, whereas in the governmental fund financial statements, an interest expenditure is reported when due.	<u>(31,680)</u>
<u>Change in Net Assets of Governmental Activities:</u>	<u><u>\$ 1,844,091</u></u>

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - CREATION OF DISTRICT:

The Fort Bend Emergency Services District No. 2 (the District), a political subdivision, was created on June 4, 2002 under Chapter 775 of the Health and Safety Code to facilitate the application of emergency services including fire protection, fire prevention and rescue services to the residents of the District. The basic operations of the District are funded through tax levies assessed on members of the District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting Entity:

All financial activities attributable to the District and directly subject to the authorization and control by the Board of Commissioners are included in the financial statements. For financial reporting purposes, the District is neither considered to be a component unit of another entity nor is another entity considered to be a component unit of the District.

Government-wide and fund financial statements:

The district-wide financial statements (i. e., the statement of net assets and the statement of changes in net assets) report information on the financial position and activities of the District. All payments to the District are the result of a tax levy received in a non-exchange transaction. All tax revenues received are reported in the statement of activities as general revenues. The District does not provide any program services for which it receives a fee.

The fund financial statements provide reports on the financial condition and results of operations of the general fund, the only fund of the District.

Measurement focus, basis of accounting, and financial statement presentation:

The financial statements of the District are prepared in accordance with generally accepted accounting principles. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant policies are discussed in subsequent sections of this Note.

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability has been incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become measurable and available to finance expenditures of the current period. For this purpose, the District considers the revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred as under accrual accounting.

Fund Accounting:

The general fund is used to account for all the financial resources of the District. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Texas and the bylaws of the District. Currently the District has no obligations or restrictions requiring the use of other specific fund types.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Revenues – Exchange and Non-Exchange Transactions:

The District does not receive any revenue resulting from exchange transactions, in which each party gives and receives essential equal value.

Non-exchange transactions, in which the District receives value without directly giving value in return, include property taxes collected on the tax levy.

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Net Assets:

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or the improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by external restrictions by creditors, grantors, laws, or regulations of other governmental bodies. The District has committed through the budgeting process \$3,000,000 for emergency operations and \$1,981,454 for capital asset replacement. There is a deed restriction on Station #1 property; the property can only be used for a fire station. The District has no other restrictions on its net assets.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgets and Budgetary Accounting:

The Board of Commissioners adopts an annual non-appropriated budget for the General Fund in accordance with the accounting principles applicable to that fund. The District's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ended December 31, 2013. The District does not use encumbrances or appropriations.

Capital Assets:

Capital assets, which include land, buildings and equipment, are reported in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at cost. The District has not received any capital assets through donations. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The district depreciates its assets using the straight line method over a period of seven years for equipment and forty years for buildings and related improvements.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Revenues:

The District reports unearned deferred revenues in the governmental fund balance sheet. Deferred and unearned revenue arises when potential revenue does not meet the measurable and available criterion for recognition in the current period. Property taxes available for the 2013 fiscal year include the 2012 property tax roll levy and tax collections from all prior levies. Property tax collections from the 2013 property tax roll levy have been fully deferred.

Fund Balance Classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified Prepaid Expenses as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners. These amounts cannot be used for any other purpose unless the Board of Commissioners removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Commissioners through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District did not have any assigned resources as of December 31, 2013.

Unassigned: This classification includes the residual fund balance for the General Fund which has not been classified within the other above mentioned categories.

Interest Capitalization:

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Total interest cost incurred and capitalized for the year ended December 31, 2013 was \$30,827.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

NOTE 3 - TAX LEVY:

During the year ended December 31, 2013, the District levied an ad valorem tax at the rate of \$0.098 per \$100 of assessed valuation for the 2013 tax year. This resulted in a tax levy of \$4,162,532 on the adjusted taxable valuation of \$4,247,481,633 for the 2013 tax year.

The District's tax calendar is as follows:

Levy Date	- Before the later of September 30 th or the 60 th day after the receipt of the certified tax roll.
Lien Date	- January 1.
Due Date	- Not later than January 31.
Delinquent Date	- February 1 and July 1, at which times the taxpayer is liable for interest and penalties, respectively.

NOTE 4 - CASH AND TEMPORARY INVESTMENTS:

Texas statutes include specifications for and limitations on the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposits from banks domiciled in Texas, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools.

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

The District categorizes its investments based on the following criteria:

Category 1: Includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name,

Category 2: Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name,

Category 3: Includes uninsured and unregistered investments for which the securities are held by the counterparty, or the counterparty's trust department or agent, but not in the District's name.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 - CASH AND TEMPORARY INVESTMENTS (continued):

Texas statutes require that any cash balance in any fund shall to the extent not insured by the Federal Depository Insurance Corporation or its successor be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At December 31, 2013, the District held cash in two financial institutions in five demand deposit accounts totaling \$3,837,744 and \$3,932,025 in seventeen other financial institutions in certificate of deposits all with a holding period of eighteen months or less. All of the funds in these financial institutions were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. Based on the three levels of risk described above, all of the District's cash deposits are classified as Category 1.

In addition, the District held \$1,655,871 of short term investments with two investment companies. The first is through the Texas Treasury under a designated Texpool account, with a balance of \$714,881 at December 31, 2013, which is not subject to categorization. The Second is with Texas Class, a local government investment pool trust, which invests only in securities allowed by the Texas Public Funds Investment Act. The balance with Texas Class at December 31, 2013 is \$940,990 and is not subject to categorization.

NOTE 5 - CERTIFICATES OF DEPOSIT:

The balance in certificates of deposits is comprised of the following:

<u>Institution</u>	<u>Balance at</u> <u>12/31/13</u>	<u>Interest</u> <u>Rate at</u> <u>12/31/13</u>	<u>Maturity</u>
Allegiance Bank Texas	\$ 61,250	1.000%	02/22/14
Bank of America (CDARS)	26,053	0.250%	03/14/14
EverBank (CDARS)	243,989	0.250%	03/14/14
The Huntington National Bank (CDARS)	243,989	0.250%	03/14/14
The Park National Bank (CDARS)	243,989	0.250%	03/14/14
The PrivateBank and Trust (CDARS)	243,989	0.250%	03/14/14
Enterprise Bank	245,000	0.700%	04/03/14
Spirit of Texas Bank	245,000	0.950%	04/08/14
Allegiance Bank Texas	61,250	1.000%	05/24/14
Third Coast Bank	245,000	0.750%	07/18/14
Moody National Bank	245,000	0.750%	08/07/14
Allegiance Bank Texas	61,250	1.000%	08/21/14
Plains State Bank	245,000	1.000%	10/02/14
Westbound Bank	245,000	0.700%	10/06/14
Central Bank	245,000	0.750%	11/20/14
Allegiance Bank Texas	61,250	1.000%	11/23/14
Bank of Texas	245,000	0.600%	01/05/15
Compass Bank	245,000	0.797%	02/04/15
Memorial City Bank	245,000	0.980%	03/04/15
ICON Bank	<u>235,016</u>	1.000%	05/17/15
Total	<u>\$ 3,932,025</u>		

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

NOTE 6 - CAPITAL ASSET ACTIVITY:

Capital asset activity for the District for the year ended December 31, 2013 was as follows:

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
Buildings and improvements	\$ 1,738,089	\$ 3,242,854	\$ 0	\$ 4,980,943
Emergency service equipment	3,122,285	753,853	0	3,876,138
Construction in progress	2,583,492	0	2,583,492	0
Station furniture and equipment	221,277	98,161	0	319,438
Land	<u>23,637</u>	<u>32,413</u>	<u>0</u>	<u>50,050</u>
Total	<u>\$ 7,688,780</u>	<u>\$ 4,127,281</u>	<u>\$ 2,583,492</u>	<u>\$ 9,226,569</u>

Depreciation expense reported during the year ended December 31, 2013 was as follows:

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
Buildings and improvements	\$ 294,500	\$ 86,419	\$ 0	\$ 380,919
Emergency service equipment	1,355,772	178,162	0	1,533,934
Station furniture and equipment	65,203	33,360	0	98,563
Land	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 1,715,475</u>	<u>\$ 297,941</u>	<u>\$ 0</u>	<u>\$ 2,013,416</u>

NOTE 7 - LONG-TERM LIABILITIES:

Long-term liability activity for the District for the year ended December 31, 2013 was a follows:

	<u>Beginning</u>	<u>Increase (Decrease)</u>	<u>Ending</u>
Note payable – Trustmark National Bank	<u>\$ 1,841,371</u>	<u>\$ 1,532,124</u>	<u>\$ 3,373,495</u>

NOTE 8 - NOTES PAYABLE:

The District financed the construction of station #2 with Trustmark National Bank through the execution of a construction loan dated March 22, 2012. The loan amount was for the lesser of 80% of the "as completed" appraised value of the project or \$3,500,000 and bears interest at 2.89% per annum. The construction loan was set to expire on March 22, 2013 and was extended through July 1, 2013.

On March 22, 2012, the District signed a security agreement with Trustmark National Bank which gave the bank a security interest in a deposit account the District maintains with them. As of December 31, 2013, the balance in the secured account was \$765,235.

The construction loan converted to a standard note payable on July 1, 2013, with annual payments of \$103,192 beginning March 22, 2014 through March 22, 2022, at which time the remaining balance is due in full.

As of December 31, 2013, the balance on the note payable was \$3,373,495.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

NOTE 8 – NOTES PAYABLE (continued):

The following schedule outlines principal and interest amounts due on the note:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended December 31, 2014	\$ 32,231	\$ 70,961	\$ 103,192
Year ended December 31, 2015	6,630	96,562	103,192
Year ended December 31, 2016	6,821	96,371	103,192
Year ended December 31, 2017	7,018	96,174	103,192
Year ended December 31, 2018	7,221	95,971	103,192
Year ended 2019 through 2022	<u>3,313,574</u>	<u>381,736</u>	<u>3,695,310</u>
Total	<u>\$ 3,373,495</u>	<u>\$ 837,775</u>	<u>\$ 4,211,270</u>

NOTE 9 - RISK MANAGEMENT:

The District covers various risks of loss in the event it incurs tort claims including theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts from the date of inception on June 4, 2002 through December 31, 2013.

NOTE 10 – SUBSEQUENT EVENTS:

On May 8, 2014, the District signed a contract in the amount of \$1,019,304, to purchase land for Station #3.

The District has evaluated subsequent events through May 21, 2014, the date which the financial statements were available to be issued and determined that other than the above item, no additional disclosures are required.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES:</u>			
Property taxes	\$ 3,716,082	\$ 3,824,707	\$ 108,625
Interest income	25,000	36,891	11,891
Penalties and interest	-	10,367	10,367
Donations	5,000	5,000	-
Miscellaneous	500	4,502	4,002
Contingencies	410,000	-	(410,000)
False alarm fees	500	-	(500)
Fire service revenue	450	-	(450)
Total Revenues	<u>4,157,532</u>	<u>3,881,467</u>	<u>(276,065)</u>
<u>EXPENDITURES:</u>			
Wages and payroll taxes - firefighters	1,554,800	1,404,540	150,260
Repairs and maintenance	284,934	276,931	8,003
Purchase of capital assets - net	1,143,037	253,330	889,707
Insurance	57,695	65,656	(7,961)
Legal and professional fees	181,200	58,436	122,764
Wages and payroll taxes - administration	60,000	56,555	3,445
Consumables	189,500	54,909	134,591
Utilities	45,412	36,214	9,198
Fuel	23,000	23,824	(824)
Office expenses	41,665	22,044	19,621
Tax collector fees	24,000	21,547	2,453
Telephone and communications	21,620	19,860	1,760
Fire station construction loan interest	404,846	17,980	386,866
Travel and meals	19,500	9,504	9,996
Appraisal district fees	7,500	7,825	(325)
Commissioners fees and expenses	6,000	4,442	1,558
Contingencies	92,000	-	92,000
Total Expenditures	<u>4,156,709</u>	<u>2,333,597</u>	<u>1,823,112</u>
Excess of Revenues Over Expenditures	823	1,547,870	1,547,047
Fund Balance - Beginning of Year	<u>6,364,924</u>	<u>6,364,924</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 6,365,747</u>	<u>\$ 7,912,794</u>	<u>\$ 1,547,047</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2013

NOTE 1 - BUDGETARY PROCESS:

The Board of Commissioners adopts an annual non-appropriated budget for the General Fund in accordance with the accounting principles applicable to that fund. The District's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ended December 31, 2013. The District does not use encumbrances or appropriations.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING:

The District's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements. The District budgets capital purchases as expenditures, but the financial statements show those purchases as depreciable capital assets. There were no other significant differences between the GAAP basis budget and the budget prepared by the District.