

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

FORT BEND COUNTY, TEXAS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

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DECEMBER 31, 2019

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# *Ubernosky & Majeres, PLLC*

*Certified Public Accountants*

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## **Independent Auditor's Report**

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

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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's responsibility for the financial statements:**

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

### **Auditor's Responsibility:**

Our responsibility is to express 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, 2019, 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:**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 and budgetary comparison schedule, schedule of changes in net pension liability and related ratios, and schedule of employer contributions on pages 28 through 32 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.

A handwritten signature in dark ink, appearing to read "Ubernosky & Majeres, PLLC". The signature is fluid and cursive, with the letters "U" and "M" being particularly prominent.

UBERNOSKY & MAJERES, PLLC  
Houston, TX  
June 16, 2020

## FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019. Please review it in conjunction with the District's financial statements which begin on page 8 of this report.

#### **FINANCIAL HIGHLIGHTS**

- Total net position at December 31, 2019 was \$31,958,869 as compared to \$29,858,732 as of December 31, 2018, representing an increase in total net position of \$2,100,137 or 7%.
- The total 2019 assessed tax levy of the District, which will be used to fund operations for the 2020 calendar year, is \$6,987,466 as compared to the total 2018 assessed tax levy of \$6,823,086, an increase of \$164,380 or 2%.
- The District incurred \$5,130,059 of expenses during the year ended December 31, 2019 as compared to \$4,833,434 for the year ended December 31, 2018, representing an increase in expenses of \$296,625 or 6%.
- The general fund reported a fund balance of \$17,933,559 at December 31, 2019 as compared to \$15,995,969 as of December 31, 2018, representing an increase in general fund balance of \$1,937,590 or 12%.
- As of December 31, 2019, the District has identified approximately \$6,800,000 of capital asset replacement, \$2,200,000 for fire station 1 upgrade or repair, and \$1,100,000 for debt retirement expenditures to be incurred in the near term.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 8-10) provide information about the activities of the District as a whole. Fund financial statements are included on pages 11-14. The notes provide additional information essential to a full understanding of the data provided in the government-wide financial statements (statement of net position and the statement of activities), and the fund financial statements. The notes to the basic financial statements can be found on pages 15-27 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, 2019 and 2018.

|                              | <b>For the Years ended December 31,</b> |                     |
|------------------------------|-----------------------------------------|---------------------|
|                              | <b><u>2019</u></b>                      | <b><u>2018</u></b>  |
| Total Property Valuations    | \$ 6,987,466,000                        | \$ 6,823,086,000    |
| Tax Rate per \$100 Valuation | <u>.001000</u>                          | <u>.001000</u>      |
| Taxes Assessed               | <u>\$ 6,987,466</u>                     | <u>\$ 6,823,086</u> |

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2019

**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:

|                            | <b>For the Years ended December 31,</b> |                     |
|----------------------------|-----------------------------------------|---------------------|
|                            | <b><u>2019</u></b>                      | <b><u>2018</u></b>  |
| Property Tax Revenue       | \$ 6,857,155                            | \$ 6,776,590        |
| Penalties and Interest     | 19,900                                  | 19,952              |
| Interest Income            | 343,781                                 | 239,350             |
| Miscellaneous              | 9,360                                   | 29,255              |
| Cost of Emergency Services | ( 4,291,244 )                           | ( 4,073,471 )       |
| General Government         | ( 803,995 )                             | ( 705,624 )         |
| Interest on Long Term Debt | ( 34,820 )                              | ( 54,339 )          |
| Increase in Net Position   | <u>\$ 2,100,137</u>                     | <u>\$ 2,231,713</u> |

The District's total net position as of December 31, 2019 and 2018 are summarized below:

|                                | <b>As of December 31,</b> |                      |                      |
|--------------------------------|---------------------------|----------------------|----------------------|
|                                | <b><u>2019</u></b>        | <b><u>2018</u></b>   | <b><u>Change</u></b> |
| Assets (non-capital)           | \$ 21,017,112             | \$ 19,239,451        | \$ 1,777,661         |
| Assets (capital)               | 11,761,620                | 12,329,495           | ( 567,875 )          |
| Deferred outflows of resources | 343,242                   | 191,512              | 151,730              |
| Liabilities (current)          | ( 272,979 )               | ( 424,311 )          | 151,332              |
| Liabilities (non-current)      | ( 886,968 )               | ( 1,472,582 )        | 585,614              |
| Deferred inflows of resources  | ( 3,158 )                 | ( 4,833 )            | 1,675                |
| Net Position                   | <u>\$ 31,958,869</u>      | <u>\$ 29,858,732</u> | <u>\$ 2,100,137</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, 2019, which is more fully detailed on page 28 of this report:

|                              | <b><u>Budget</u></b> | <b><u>Actual</u></b> | <b><u>Variance</u></b> |
|------------------------------|----------------------|----------------------|------------------------|
| <b><u>Revenues:</u></b>      |                      |                      |                        |
| Property Tax Revenue         | \$ 6,726,463         | \$ 6,921,186         | \$ 194,723             |
| Penalties and Interest       | -                    | 19,900               | 19,900                 |
| Interest Income              | 168,000              | 343,781              | 175,781                |
| Other                        | 14,950               | 9,360                | ( 5,590 )              |
| <b><u>Expenditures:</u></b>  |                      |                      |                        |
| Purchase of Capital Assets * | 545,500              | 34,365               | 511,135                |
| Prior Year Reserves *        | ( 166,000 )          | -                    | ( 166,000 )            |
| Emergency Services           | 3,998,467            | 3,865,146            | 133,321                |
| Principal & Interest         | 640,395              | 640,395              | -                      |
| Other General Expenses       | 844,373              | 816,731              | 27,642                 |
| Contingencies                | <u>1,046,537</u>     | <u>-</u>             | <u>1,046,537</u>       |
| Net Variance – Favorable     | <u>\$ 141</u>        | <u>\$ 1,937,590</u>  | <u>\$ 1,937,449</u>    |

\* – Prior year reserves used in part to fund fire station construction expense.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Mr. Thomas M. Raia Jr, President

Mr. Robert Miller, Vice President

Mr. Jack Hazel, Treasurer

Ms. Marti Thorne, Secretary

Mr. John Schwin, Asst. Treasurer

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF NET POSITION

DECEMBER 31, 2019

**ASSETS:**

**CURRENT ASSETS:**

|                                  |                   |
|----------------------------------|-------------------|
| Cash                             | \$ 374,289        |
| Certificates of deposit          | 1,224,092         |
| Short term investments           | 14,019,341        |
| Taxes receivable                 | 3,010,629         |
| Due from tax assessor/collector  | 2,358,408         |
| Prepays and other current assets | <u>30,353</u>     |
| Total Current Assets             | <u>21,017,112</u> |

**NON-CURRENT ASSETS:**

Capital Assets:

|                                 |                    |
|---------------------------------|--------------------|
| Emergency service equipment     | 5,361,362          |
| Buildings and improvements      | 9,526,790          |
| Station furniture and equipment | 545,901            |
| Land                            | 1,082,550          |
| Accumulated depreciation        | <u>(4,754,983)</u> |
| Net capital assets              | <u>11,761,620</u>  |
| Total Non-Current Assets        | <u>11,761,620</u>  |

**DEFERRED OUTFLOWS OF RESOURCES:**

|                                                 |                             |
|-------------------------------------------------|-----------------------------|
| Deferred outflows related to pension activities | <u>343,242</u>              |
| Total Assets and Deferred Outflows of Resources | <u><u>\$ 33,121,974</u></u> |

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 NET POSITION

DECEMBER 31, 2019

**LIABILITIES:**

**CURRENT LIABILITIES:**

|                                   |           |
|-----------------------------------|-----------|
| Accounts payable                  | \$ 39,444 |
| Interest payable                  | 24,137    |
| Current portion of long term debt | 209,398   |
|                                   | <hr/>     |
| Total Current Liabilities         | 272,979   |

**NON-CURRENT LIABILITIES:**

|                               |         |
|-------------------------------|---------|
| Long-term debt                | 863,188 |
| Net pension liability         | 23,780  |
|                               | <hr/>   |
| Total Non-Current Liabilities | 886,968 |

**DEFERRED INFLOWS OF RESOURCES:**

|                                                |       |
|------------------------------------------------|-------|
| Deferred inflows related to pension activities | 3,158 |
|                                                | <hr/> |

|                                                     |           |
|-----------------------------------------------------|-----------|
| Total Liabilities and Deferred Inflows of Resources | 1,163,105 |
|                                                     | <hr/>     |

**NET POSITION:**

|                                                                   |               |
|-------------------------------------------------------------------|---------------|
| Investments in capital assets - net of related debt               | 11,528,442    |
| Restricted:                                                       |               |
| Prepaid expenses                                                  | 30,353        |
| Committed:                                                        |               |
| Capital asset replacement                                         | 6,800,000     |
| Emergency operations                                              | 5,600,000     |
| Fire station 1 upgrade or repair                                  | 2,200,000     |
| Debt retirement                                                   | 1,100,000     |
| Unrestricted net position                                         | 4,700,074     |
|                                                                   | <hr/>         |
| Total Net Position                                                | 31,958,869    |
|                                                                   | <hr/>         |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 33,121,974 |
|                                                                   | <hr/>         |

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, 2019

| <b><u>FUNCTIONS/PROGRAMS:</u></b>  | <b><u>Expenses</u></b> | <b><u>Contributions</u></b> | <b><u>Net (Expense)<br/>Revenue</u></b> |
|------------------------------------|------------------------|-----------------------------|-----------------------------------------|
| <b>Primary Government:</b>         |                        |                             |                                         |
| Governmental Activities:           |                        |                             |                                         |
| Public safety - emergency services | \$ 4,291,244           | \$ -                        | \$ (4,291,244)                          |
| General government                 | 803,995                | -                           | (803,995)                               |
| Interest on long term debt         | 34,820                 | -                           | (34,820)                                |
| Total Government Activities        | <u>\$ 5,130,059</u>    | <u>\$ -</u>                 | <u>(5,130,059)</u>                      |
| <b><u>GENERAL REVENUES:</u></b>    |                        |                             |                                         |
| Property taxes                     |                        |                             | 6,857,155                               |
| Penalties and interest             |                        |                             | 19,900                                  |
| Interest income                    |                        |                             | 343,781                                 |
| Miscellaneous                      |                        |                             | 6,160                                   |
| False alarm fees                   |                        |                             | 3,200                                   |
| Total General Revenues             |                        |                             | <u>7,230,196</u>                        |
| Change in Net Position             |                        |                             | 2,100,137                               |
| Net Position - Beginning of Year   |                        |                             | <u>29,858,732</u>                       |
| Net Position - End of Year         |                        |                             | <u>\$ 31,958,869</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, 2019

**ASSETS:**

|                                  |    |            |
|----------------------------------|----|------------|
| Cash                             | \$ | 374,289    |
| Certificates of deposit          |    | 1,224,092  |
| Short term investments           |    | 14,019,341 |
| Taxes receivable                 |    | 3,010,629  |
| Due from tax assessor/collector  |    | 2,358,408  |
| Prepays and other current assets |    | 30,353     |
| Total Assets                     | \$ | 21,017,112 |

**LIABILITIES AND FUND BALANCE:**

**LIABILITIES:**

|                      |    |           |
|----------------------|----|-----------|
| Accounts payable     | \$ | 72,924    |
| Deferred tax revenue |    | 3,010,629 |
| Total Liabilities    |    | 3,083,553 |

**FUND BALANCE:**

|                                    |    |            |
|------------------------------------|----|------------|
| Nonspendable:                      |    |            |
| Prepaid expenses                   |    | 30,353     |
| Committed for:                     |    |            |
| Capital asset replacement          |    | 6,800,000  |
| Emergency operations               |    | 5,600,000  |
| Fire station construction          |    | 2,200,000  |
| Debt retirement                    |    | 1,100,000  |
| Unassigned                         |    | 2,203,206  |
| Total Fund Balance                 |    | 17,933,559 |
| Total Liabilities and Fund Balance | \$ | 21,017,112 |

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, 2019

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL  
FUND TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2019**

|                                                                                                                                                                                            |                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| <b><u>Total Government Fund Balance:</u></b>                                                                                                                                               | \$ 17,933,559               |
| Capital assets used in governmental activities are not financial resources<br>and therefore are not recorded in the governmental fund financial statements.                                | 16,516,603                  |
| Accumulated depreciation has not been included in the governmental fund<br>financial statements.                                                                                           | (4,754,983)                 |
| Deferred revenues are recorded in the funds, but are not deferred<br>under the measurement focus employed in the Statement of Net Position.                                                | 3,010,629                   |
| Interest expense is accrued on outstanding debt in the statement of net<br>assets, whereas in the governmental fund financial statements, an interest<br>expenditure is reported when due. | (24,137)                    |
| Net pension liabilities and related deferred outflows do not represent assets in the<br>current period and are not recognized in the governmental fund financial statements.               | 349,784                     |
| Obligations incurred under debt financed construction are not due and payable<br>in the current period and therefore are not reported in the funds.                                        | <u>(1,072,586)</u>          |
| <b><u>Net Position of Governmental Activities:</u></b>                                                                                                                                     | <b><u>\$ 31,958,869</u></b> |

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, 2019

**REVENUES:**

|                        |              |
|------------------------|--------------|
| Property taxes         | \$ 6,921,186 |
| Penalties and interest | 19,900       |
| Interest income        | 343,781      |
| Miscellaneous          | 9,360        |
|                        | <hr/>        |
| Total Revenues         | 7,294,227    |

**EXPENDITURES:**

|                                          |               |
|------------------------------------------|---------------|
| Wages and payroll taxes - firefighters   | 3,375,657     |
| Fire station note principal              | 589,599       |
| Repairs and maintenance                  | 460,902       |
| Pension expense                          | 184,112       |
| Insurance                                | 140,457       |
| Legal and professional fees              | 101,520       |
| Wages and payroll taxes - administration | 95,690        |
| Consumables                              | 74,493        |
| Utilities                                | 52,636        |
| Tax collector fees                       | 51,238        |
| Fire station note loan interest          | 50,796        |
| Office expenses                          | 45,769        |
| Purchase of capital assets - net         | 34,365        |
| Telephone and communications             | 32,771        |
| Fuel                                     | 23,996        |
| Commissioners fees and expenses          | 21,107        |
| Travel and meals                         | 12,548        |
| Appraisal district fees                  | 8,981         |
|                                          | <hr/>         |
| Total Expenditures                       | 5,356,637     |
|                                          | <hr/>         |
| Excess of Revenues over Expenditures     | 1,937,590     |
|                                          | <hr/>         |
| Fund Balance - Beginning of Year         | 15,995,969    |
|                                          | <hr/>         |
| Fund Balance - End of Year               | \$ 17,933,559 |

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, 2019

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

|                                                                                                                                                                                      |                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| <b><u>Net Change in Government Fund Balance:</u></b>                                                                                                                                 | \$ 1,937,590               |
| Government funds report capital outlays as expenditures, whereas those costs are shown as increases in capital assets in the statement of activities.                                | 34,365                     |
| Government funds report debt payments as expenditures, whereas those payments are shown as a decrease in liabilities in the statement of activities.                                 | 589,599                    |
| Depreciation is not recognized as an expense in the government fund since it does not require the use of current financial resources.                                                | (602,240)                  |
| Pension expense derived from net pension liability is not recognized as an expense in the government fund since it does not require the use of current financial resources.          | 188,878                    |
| Deferred revenues are recorded in the funds, but are not deferred under the measurement focus employed in the Statement of Net Position.                                             | (64,031)                   |
| 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>15,976</u>              |
| <b><u>Change in Net Position of Governmental Activities:</u></b>                                                                                                                     | <b><u>\$ 2,100,137</u></b> |

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, 2019

#### **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 position and the statement of activities) 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 Position 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, 2019

**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 Position:**

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or the improvement of those assets. Net position is 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 \$5,600,000 for emergency operations, \$6,800,000 for capital asset replacement, \$2,200,000 related to the future upgrades and repairs to station 1 and \$1,100,000 for the retirement of debt. There is a deed restriction on the new fire station property limited the use of the property to the construction of a fire station only. The District has no other restrictions on its net position.

**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, 2019. 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, 2019

**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 2019 fiscal year include the 2018 property tax roll levy and tax collections from all prior levies. Uncollected property taxes from the 2019 and prior year property tax roll levies have been fully deferred in the government funds.

**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, 2019.

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

**Pensions**

The District's defined benefit pension plan (the "Plan") is administered by the statewide Texas County and District Retirement System ("TCDRS"). Net pension liabilities, pension expense, information about the fiduciary net position, and additions to and deductions from the Plan's fiduciary net position, have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and as such will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category:

**Deferred outflows of resources for pension items reported in the government wide financial statement of net position.** This deferred outflow results from both pension plan contributions made after the measurement date of the net pension liability and also the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from actuarial estimates versus actual results are amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently 12 years for the District plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category:

Deferred inflows of resources for pension – Reported by the District in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

**NOTE 3 - TAX LEVY:**

During the year ended December 31, 2019, the District levied an ad valorem tax at the rate of \$0.010 per \$100 of assessed valuation for the 2019 tax year. This resulted in a tax levy of \$6,987,466 on the adjusted taxable valuation of \$6,987,466,000 for the 2019 tax year.

The District's tax calendar is as follows:

|                 |                                                                                                                           |
|-----------------|---------------------------------------------------------------------------------------------------------------------------|
| Levy Date       | - Before the later of September 30 <sup>th</sup> or the 60 <sup>th</sup> 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 - 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, 2019.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

**NOTE 5 - 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.

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, 2019, the District held cash in one financial institutions in two demand deposit accounts totaling \$390,407 and \$1,224,092 in five other financial institutions in certificate of deposits all with a holding period of twenty four 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 \$14,019,341 of short term investments with two investment companies. The first is through the Texas Treasury under a designated Texpool account, with a balance of \$15,879 at December 31, 2019, 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, 2019 is \$14,003,462 and is not subject to categorization.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

**NOTE 6 - CAPITAL ASSET ACTIVITY:**

Capital asset activity for the District for the year ended December 31, 2019 was as follows:

|                                 | <u>Beginning</u>     | <u>Increase</u>  | <u>Decrease</u>     | <u>Ending</u>        |
|---------------------------------|----------------------|------------------|---------------------|----------------------|
| Buildings and improvements      | \$ 9,546,928         | \$ 0             | \$ ( 20,138)        | \$ 9,526,790         |
| Emergency service equipment     | 5,361,362            | 0                | 0                   | 5,361,362            |
| Station furniture and equipment | 491,398              | 54,503           | 0                   | 545,901              |
| Land                            | <u>1,082,550</u>     | <u>0</u>         | <u>0</u>            | <u>1,082,550</u>     |
| Total                           | <u>\$ 16,482,238</u> | <u>\$ 54,503</u> | <u>\$ ( 20,138)</u> | <u>\$ 16,516,603</u> |

Depreciation expense reported during the year ended December 31, 2019 was as follows:

|                                 | <u>Beginning</u>    | <u>Increase</u>   | <u>Decrease</u> | <u>Ending</u>       |
|---------------------------------|---------------------|-------------------|-----------------|---------------------|
| Buildings and improvements      | \$ 1,103,121        | \$ 241,020        | \$ 0            | \$ 1,344,141        |
| Emergency service equipment     | 2,745,643           | 306,234           | 0               | 3,051,877           |
| Station furniture and equipment | 303,979             | 54,986            | 0               | 358,965             |
| Land                            | <u>0</u>            | <u>0</u>          | <u>0</u>        | <u>0</u>            |
| Total                           | <u>\$ 4,152,743</u> | <u>\$ 602,240</u> | <u>\$ 0</u>     | <u>\$ 4,754,983</u> |

**NOTE 7 - LONG-TERM LIABILITIES:**

Long-term liability activity for the District for the year ended December 31, 2019 was as follows:

|                                        | <u>Beginning</u>    | <u>Increase<br/>(Decrease)</u> | <u>Ending</u>       |
|----------------------------------------|---------------------|--------------------------------|---------------------|
| Note payable – Trustmark National Bank | <u>\$ 1,662,185</u> | <u>\$( 589,599)</u>            | <u>\$ 1,072,586</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 bearing interest at 2.89% per annum. 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 would have been due in full.

On October 29, 2014, the District signed a note modification with Trustmark National Bank which removed the security interest in the deposit account held by them. At that time a principal reduction payment was made by the District in the amount of \$605,237 to bring the note balance down to \$2,736,000. Annual payments under the loan modification are \$240,396 beginning March 22, 2015 and continuing until March 22, 2022, at which time the remaining balance is due in full. On January 30, 2020, the District paid this note in full.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

**NOTE 8 – NOTES PAYABLE (continued):**

As of December 31, 2019, the balance on the note payable was \$1,072,586.

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, 2020 | \$ 209,398          | \$ 30,998        | \$ 240,396          |
| Year ended December 31, 2021 | 215,449             | 24,947           | 240,396             |
| Year ended December 31, 2022 | <u>647,739</u>      | <u>18,719</u>    | <u>666,458</u>      |
| Total                        | <u>\$ 1,072,586</u> | <u>\$ 74,664</u> | <u>\$ 1,147,250</u> |

**NOTE 9 - CERTIFICATES OF DEPOSIT:**

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

| <u>Institution</u>      | <u>Balance at</u><br><u>12/31/19</u> | <u>Interest</u><br><u>Rate at</u><br><u>12/31/19</u> | <u>Maturity</u> |
|-------------------------|--------------------------------------|------------------------------------------------------|-----------------|
| Southwest National Bank | \$ 248,391                           | 1.290%                                               | 02/12/20        |
| Compass Bank            | 245,000                              | 2.230%                                               | 03/24/20        |
| Veritex Community Bank  | 242,000                              | 2.600%                                               | 04/03/20        |
| Texas Gulf Bank         | 243,701                              | 2.250%                                               | 04/28/20*       |
| Plains State Bank       | <u>245,000</u>                       | 2.350%                                               | 10/02/21        |
| Total                   | <u>\$ 1,224,092</u>                  |                                                      |                 |

\* - Texas Gulf Bank is a 5 year CD with an annual option to withdraw funds and close CD without penalty.  
The interest rate increases each year from 0.60% to 4.60% in the final year.

**NOTE 10 – SUBSEQUENT EVENTS:**

On January 30, 2020, the District paid the remaining balance in full on the Trustmark Note.

The District has evaluated subsequent events through June 16, 2020, 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

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEM**

**Plan Description**

As of January 1, 2016, the District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (“CAFR”) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034. The measurement date used in the retirement plan calculations included in these financial statements is as of the previous fiscal year end.

**Benefits Provided**

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (“TCDRS Act”). Members can retire with ten or more years of service at age 60 and above, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after ten years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

All employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Survivor benefits are payable to the beneficiaries or estate of a deceased member. The eligibility requirements for an employer-provided Survivor Benefit is four years of TCDRS service. Otherwise the Survivor Benefit is the deceased member's account balance. An employee who leaves District service may withdraw his or her contributions, plus any accumulated interest.

**Employees Covered by Benefit Terms**

As of December 31, 2018, the following employees were covered by the benefit terms:

|                                                                             |           |
|-----------------------------------------------------------------------------|-----------|
| Active employees:                                                           | 76        |
| Number of inactive employees entitled to<br>but not yet receiving benefits: | <u>13</u> |
|                                                                             | <u>89</u> |

**Contributions**

The employer has elected the annually determined contribution rate (“ADCR”) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually and was 6.12% for year ended December 31, 2018. The contribution rate payable by the employee members is 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (continued):**

**Contributions (continued)**

The District's total payroll in fiscal year 2018 was \$2,742,080, with District's contributions based on payroll of \$2,718,669. Employee contributions totaled \$190,307 during the year ended December 31, 2018. The District made actual cash contributions of \$166,383 to the plan during the year ended December 31, 2018.

**Net Pension Liability**

The District's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**Actuarial Assumptions**

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                                                            |                                                                                                                                                                                                   |
|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Inflation</b>                                           | 2.75%                                                                                                                                                                                             |
| <b>Salary Increases</b>                                    | 4.90%                                                                                                                                                                                             |
| <b>Investment Rate of Return</b>                           | 8.00%                                                                                                                                                                                             |
| <b>Mortality</b>                                           |                                                                                                                                                                                                   |
| Depositing members                                         | 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.    |
| Service retirees, beneficiaries and non-depositing members | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the Ultimate scale after 2014. |
| Disabled retirees                                          | 130% of the RP-2014 Disabled Mortality Table for males and 115% of the RP-2014 Disabled Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.           |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Discount Rate**

The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (continued):**

**Discount Rate (continued)**

2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability ("UAAL") shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2019 information for a 10 year time horizon.

**FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**December 31, 2019**

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (continued):**

**Long-Term Expected Rate of Return (continued)**

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 – December 31, 2016 for more details.

| <b>Asset Class</b>                   | <b>Benchmark</b>                                                                  | <b>Target Allocation <sup>(1)</sup></b> | <b>Geometric Real Rate of Return (Expected minus Inflation) <sup>(2)</sup></b> |
|--------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------|
| U.S. Equities                        | Dow Jones U.S. Total Stock Market Index                                           | 10.50%                                  | 5.40%                                                                          |
| Private Equity                       | Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup> | 18.00%                                  | 8.40%                                                                          |
| Global Equities                      | MSCI World (net) Index                                                            | 2.50%                                   | 5.70%                                                                          |
| Int'l Equities - Developed Markets   | MSCI World Ex USA (net) Index                                                     | 10.00%                                  | 5.40%                                                                          |
| Int'l Equities - Emerging Markets    | MSCI EM Emerging Mkts (net) Index                                                 | 7.00%                                   | 5.90%                                                                          |
| Investment - Grade Bonds             | Bloomberg Barclays U.S. Aggregate Bond Index                                      | 3.00%                                   | 1.60%                                                                          |
| Strategic Credit                     | FTSE High - Yield Cash - Pay Capped Index                                         | 12.00%                                  | 4.39%                                                                          |
| Direct Lending                       | S&P/LSTA Leveraged Loan Index                                                     | 11.00%                                  | 7.95%                                                                          |
| Distressed Debt                      | Cambridge Associates Distressed Securities Index <sup>(4)</sup>                   | 2.00%                                   | 7.20%                                                                          |
| REIT Equities                        | 67% FTSE NAREIT All Equity REITs Index + 33% S & P Global REIT (net) Index        | 2.00%                                   | 4.15%                                                                          |
| Master Limited Partnerships ("MLPs") | Alerian MLP Index                                                                 | 3.00%                                   | 5.35%                                                                          |
| Private Real Estate Partnerships     | Cambridge Associates Real Estate Index <sup>(5)</sup>                             | 6.00%                                   | 6.30%                                                                          |
| Hedge Funds                          | Hedge Fund Research, Inc. ("HFRI") Fund of Funds Composite Index                  | 13.00%                                  | 3.90%                                                                          |

*(1) Target asset allocation adopted at the April 2019 TCDRS Board meeting.*

*(2) Geometric real rates of return equal the expected return minus assumed inflation rate of 1.70%, per Cliffwater's 2019 capital market assumptions.*

*(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.*

*(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.*

*(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.*

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (continued):**

**Changes in the Net Pension Liability**

|                                                | Increase (Decrease)               |                                  |                                       |
|------------------------------------------------|-----------------------------------|----------------------------------|---------------------------------------|
|                                                | Total Pension<br>Liability<br>(a) | Fiduciary<br>Net Position<br>(b) | Net Pension<br>Liability<br>(a) – (b) |
| Balances as of December 31, 2017               | \$ 523,171                        | \$ 558,922                       | \$ ( 35,752)                          |
| Changes for the year:                          |                                   |                                  |                                       |
| Service cost                                   | 262,719                           |                                  | 262,719                               |
| Interest on total pension liability            | 63,523                            |                                  | 63,523                                |
| Effect of plan changes                         | 0                                 |                                  | 0                                     |
| Effect of economic/demographic gains or losses | 93,360                            |                                  | 93,360                                |
| Effect of assumptions changes or inputs        | 0                                 |                                  | 0                                     |
| Refunds of contributions                       | ( 3,369)                          | ( 3,369)                         | 0                                     |
| Benefit payments                               | 0                                 | 0                                | 0                                     |
| Administrative expenses                        |                                   | ( 735)                           | 735                                   |
| Member contributions                           |                                   | 190,307                          | ( 190,307)                            |
| Net investment income                          |                                   | ( 6,466)                         | 6,466                                 |
| Employer contributions                         |                                   | 166,383                          | ( 166,383)                            |
| Other                                          | 0                                 | 10,583                           | ( 10,583)                             |
| Balances as of December 31, 2018               | \$ 939,405                        | \$ 915,625                       | \$ 23,780                             |

**Sensitivity Analysis**

The following presents the net pension liability of the employer, calculated using the discount rate of 8.10%, as well as what the Fort Bend County Emergency Services District 2 net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

|                               | 1%<br>Decrease<br>7.10% | Current<br>Discount Rate<br>8.10% | 1%<br>Increase<br>9.10% |
|-------------------------------|-------------------------|-----------------------------------|-------------------------|
| Total pension liability       | \$ 1,102,295            | \$ 939,405                        | \$ 804,208              |
| Fiduciary net position        | 915,625                 | 915,625                           | 915,625                 |
| Net pension liability/(asset) | \$ 186,670              | \$ 23,780                         | \$ ( 111,417)           |

**Deferred Inflows/Outflows of Resources**

As of December 31, 2018, the deferred inflows and outflows of resources are as follows:

|                                                      | Deferred Inflows<br>of Resources | Deferred Outflows<br>of Resources |
|------------------------------------------------------|----------------------------------|-----------------------------------|
| Differences between expected and actual experience   | \$ 0                             | \$ 107,694                        |
| Changes of assumptions                               | 3,158                            | 0                                 |
| Net difference between projected and actual earnings | 0                                | 51,436                            |
| Contributions made subsequent to measurement date    | 0                                | 184,112                           |
|                                                      | \$ 3,158                         | \$ 343,242                        |

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (continued):**

**Deferred Inflows/Outflows of Resources (continued)**

\$155,972 reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

|                              |           |
|------------------------------|-----------|
| Year ended December 31, 2019 | \$ 23,845 |
| Year ended December 31, 2020 | 23,844    |
| Year ended December 31, 2021 | 21,951    |
| Year ended December 31, 2022 | 23,712    |
| Year ended December 31, 2023 | 10,479    |
| Thereafter                   | 52,141    |

**Pension Expense**

For the year ended December 31, 2018, the District recognized pension expense of \$90,239 as follows:

|                                                       |                  |
|-------------------------------------------------------|------------------|
| Service cost                                          | \$ 262,719       |
| Interest on total pension liability <sup>(1)</sup>    | 63,523           |
| Effect of plan changes                                | 0                |
| Administrative expenses                               | 735              |
| Member contributions                                  | ( 190,307)       |
| Expected investment return net of investment expenses | ( 59,695)        |
| Recognition of assumption changes or inputs           |                  |
| Recognition of economic/demographic gains or losses   | 10,795           |
| Recognition of assumption changes or inputs           | ( 316)           |
| Recognition of investment gains or losses             | 13,366           |
| Other <sup>(2)</sup>                                  | ( 10,583)        |
| Pension expense                                       | <u>\$ 90,239</u> |

*(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.*

*(2) Relates to allocation of system-wide item.*

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2019

|                                              | <u>Budget</u> | <u>Actual</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|----------------------------------------------|---------------|---------------|-------------------------------------------------|
| <b><u>REVENUES:</u></b>                      |               |               |                                                 |
| Property taxes                               | \$ 6,726,463  | \$ 6,921,186  | \$ 194,723                                      |
| Penalties and interest                       | -             | 19,900        | 19,900                                          |
| Interest income                              | 168,000       | 343,781       | 175,781                                         |
| Miscellaneous                                | 14,950        | 9,360         | (5,590)                                         |
| Total Revenues                               | 6,909,413     | 7,294,227     | 384,814                                         |
| <b><u>EXPENDITURES:</u></b>                  |               |               |                                                 |
| Wages and payroll taxes - firefighters       | 3,429,885     | 3,375,657     | 54,228                                          |
| Fire station note principal                  | 589,599       | 589,599       | -                                               |
| Purchase of capital assets - net *           | 545,500       | 34,365        | 511,135                                         |
| Use of prior year reserves *                 | (166,000)     | -             | (166,000)                                       |
| Repairs and maintenance                      | 463,500       | 460,902       | 2,598                                           |
| Pension expense                              | 185,533       | 184,112       | 1,421                                           |
| Insurance                                    | 163,050       | 140,457       | 22,593                                          |
| Legal and professional fees                  | 66,500        | 101,520       | (35,020)                                        |
| Wages and payroll taxes - administration     | 100,297       | 95,690        | 4,607                                           |
| Consumables                                  | 153,300       | 74,493        | 78,807                                          |
| Utilities                                    | 70,300        | 52,636        | 17,664                                          |
| Tax collector fees                           | 50,500        | 51,238        | (738)                                           |
| Fire station note interest                   | 50,796        | 50,796        | 0                                               |
| Office expenses                              | 54,975        | 45,769        | 9,206                                           |
| Telephone and communications                 | 34,300        | 32,771        | 1,529                                           |
| Fuel                                         | 26,000        | 23,996        | 2,004                                           |
| Commissioners fees and expenses              | 18,000        | 21,107        | (3,107)                                         |
| Travel and meals                             | 17,500        | 12,548        | 4,952                                           |
| Appraisal district fees                      | 9,200         | 8,981         | 219                                             |
| Contingencies                                | 1,046,537     | -             | 1,046,537                                       |
| Total Expenditures                           | 6,909,272     | 5,356,637     | 1,552,635                                       |
| Excess of Revenues Over (Under) Expenditures | 141           | 1,937,590     | 1,937,449                                       |
| Fund Balance - Beginning of Year             | 15,995,969    | 15,995,969    | -                                               |
| Fund Balance - End of Year                   | \$ 15,996,110 | \$ 17,933,559 | \$ 1,937,449                                    |

\* - Prior year reserves used in part to fund fire station construction expense.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2019

**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, 2019. 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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

LAST FISCAL YEAR

| <b>Plan Year Ended December 31</b>                       | <u>2018</u>              | <u>2017</u>               | <u>2016</u>              |
|----------------------------------------------------------|--------------------------|---------------------------|--------------------------|
| <b>Total Pension Liability</b>                           |                          |                           |                          |
| Service Cost                                             | \$ 262,719               | \$ 236,956                | \$ 220,558               |
| Interest on total pension liability                      | 63,523                   | 37,711                    | 8,649                    |
| Effects of plan changes                                  | -                        | -                         | -                        |
| Effects of assumption changes or inputs                  | -                        | (3,790)                   | -                        |
| Effects of economic/demographic (gains) or losses        | 93,360                   | 24,625                    | 3,067                    |
| Benefit payments/refunds of contributions                | (3,368)                  | (1,838)                   | (2,767)                  |
| Net change in total pension liability                    | <u>416,234</u>           | <u>293,664</u>            | <u>229,507</u>           |
| Total Pension Liability, beginning                       | <u>523,171</u>           | <u>229,507</u>            | <u>-</u>                 |
| Total Pension Liability, ending (a)                      | <u><u>\$ 939,405</u></u> | <u><u>\$ 523,171</u></u>  | <u><u>\$ 229,507</u></u> |
| <b>Fiduciary Net Position</b>                            |                          |                           |                          |
| Employer contributions                                   | 166,383                  | 141,457                   | 120,554                  |
| Member contributions                                     | 190,307                  | 138,103                   | 117,219                  |
| Investment income net of investment expenses             | (6,466)                  | 39,289                    | -                        |
| Benefit payments/refunds of contributions                | (3,369)                  | (1,838)                   | (2,767)                  |
| Administrative expenses                                  | (736)                    | (371)                     | -                        |
| Other                                                    | 10,583                   | 3,718                     | 3,559                    |
| Net change in fiduciary net position                     | <u>356,702</u>           | <u>320,358</u>            | <u>238,565</u>           |
| Fiduciary net position, beginning                        | <u>558,923</u>           | <u>238,565</u>            | <u>-</u>                 |
| Fiduciary net position, ending (b)                       | <u><u>\$ 915,625</u></u> | <u><u>\$ 558,923</u></u>  | <u><u>\$ 238,565</u></u> |
| Net pension liability/(asset), ending = (a) - (b)        | <u><u>\$ 23,780</u></u>  | <u><u>\$ (35,752)</u></u> | <u><u>\$ (9,058)</u></u> |
| Fiduciary net position as a % of total pension liability | 97.47%                   | 106.83%                   | 103.95%                  |
| Pension covered payroll                                  | \$2,718,669              | \$1,972,898               | \$1,674,554              |
| Net pension liability/(asset) as % of covered payroll    | 0.87%                    | -1.81%                    | -0.54%                   |

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of December 31, 2018, only 3 years are included and additional years will be added in the future as the information becomes available.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

SCHEDULE OF EMPLOYER CONTRIBUTIONS

LAST FISCAL YEAR

| <u>Year<br/>Ended<br/>December 31,</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Actual<br/>Employer<br/>Contribution</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Pensionable<br/>Covered<br/>Payroll</u> | <u>Actual Contributions<br/>as a % of Covered<br/>Payroll</u> |
|----------------------------------------|----------------------------------------------------|---------------------------------------------|-------------------------------------------------|--------------------------------------------|---------------------------------------------------------------|
| 2018                                   | 166,383                                            | 166,383                                     | -                                               | 2,718,669                                  | 6.1%                                                          |
| 2017                                   | 141,457                                            | 141,457                                     | -                                               | 1,972,898                                  | 7.2%                                                          |
| 2016                                   | 120,066                                            | 120,554                                     | (488)                                           | 1,674,554                                  | 7.2%                                                          |

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of December 31, 2018, only 3 years are included and additional years will be added in the future as the information becomes available.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2019

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

Methods and assumptions used to determine contributions rates:

|                                                                                         |                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial Cost Method                                                                   | Entry Age                                                                                                                                                                                                                                                                                |
| Amortization Method                                                                     | Level percentage of payroll, closed                                                                                                                                                                                                                                                      |
| Remaining Amortization Period                                                           | 18.7 years (based on contribution rate calculated in 12/31/2018 valuation)                                                                                                                                                                                                               |
| Asset Valuation Method                                                                  | 5-year smoothed market                                                                                                                                                                                                                                                                   |
| Inflation                                                                               | 2.75%                                                                                                                                                                                                                                                                                    |
| Salary Increases                                                                        | Varies by age and service. 4.9% average over career including inflation.                                                                                                                                                                                                                 |
| Investment Rate of Return                                                               | 8.00%, net of investment expenses, including inflation                                                                                                                                                                                                                                   |
| Retirement Age                                                                          | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.                                                                                                        |
| Mortality                                                                               | 130% of the RP-2014 Healthy Annuitant Mortality Tables for males and 110% of the RP-2014 Healthy Annuitant Mortality Tables for females, both projected with 110% of the MP-2014 Ultimate Scale after 2014.                                                                              |
| Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions* | 2015: New inflation, mortality and other assumptions were reflected.<br>2017: New mortality assumptions were reflected.                                                                                                                                                                  |
| Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*         | 2015: No changes in plan provisions were reflected in the Schedule.<br>2016: No changes in plan provisions were reflected in the Schedule.<br>2017: No changes in plan provisions were reflected in the Schedule.<br>2018: No changes in plan provisions were reflected in the Schedule. |

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