

**HOUSTON COUNTY EMERGENCY
SERVICES DISTRICT NO. 2**

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
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SEPTEMBER 30, 2019

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HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
BOARD OF COMMISSIONERS
SEPTEMBER 30, 2019

George Crowson, Jr. President
Bobby Hutcherson Vice President
Peggy Patrick Interim Secretary
Peggy Patrick Treasurer
Josh Bobbitt Commissioner
William Money Commissioner

FINANCIAL SECTION

Todd, Hamaker & Johnson, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Melvin R. Todd, CPA
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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Houston County Emergency Services District No. 2

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major governmental fund of Houston County Emergency Services No. 2 as of September 30, 2019, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT – CONTINUED

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-10 and 26, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP
Lufkin, Texas

January 15, 2020

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(UNAUDITED)**

As management of Houston County Emergency Services District No. 2 (the "District"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2019. We encourage readers to consider information presented here as well as the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- On October 1, 2018, the District levied taxes of \$.072647 per \$100 of assessed valuation. The total tax levied was \$652,104. Property tax revenue reported for the year was \$646,241. Investment income for the year was \$1,757.
- Current year expenses totaled \$594,152. Approximately 86% (or \$515,585) represented either direct funding to VFDs for operations or depreciation and interest on equipment/buildings provided them. Other general government expenses (which include a 5% collection fee paid to the County tax assessor-collector) totaled \$78,567.
- Overall revenues exceeded expenses (or an increase in net position) by \$54,013. The District's unrestricted net position at September 30, 2019 was \$237,972.
- The District's overall long-term debt decreased by \$90,678 during the fiscal year. No new debt was incurred. Interest on long-term debt was \$23,007.

OVERVIEW OF THE FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements must include both government-wide and fund financial statements. Governments must also present a Management's Discussion and Analysis, Notes to the Financial Statements, and Required Supplementary Information.

GASB Statement No. 34 provides that for special-purpose governments engaged in a single government program, the fund financial statements and the government-wide statements may be combined. The District has elected to present financial statements under this combined method.

Using this method, governments will present financial statements that begin with *governmental fund financial statements*, with columns for major funds (usually only a general fund). The next column is an adjustments column. It reconciles the amounts reported in the governmental funds to show how specific individual accounts would change when reported on the accrual basis of accounting. The final column of these combined statements shows the amounts that normally would appear in the *government-wide statements*.

Basic Financial Statements (pages 12 – 15).

Governmental Fund Financial Statements (first column).

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is incurred.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(UNAUDITED)**

Governmental fund balance sheets present only current assets and liabilities. Capital assets and long-term liabilities are excluded.

Governmental fund statements of revenues, expenditures and changes in fund balance report information about the inflows, outflows, and balances of current financial resources.

Government-wide Financial Statements (final column).

Government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

Notes to the Financial Statements (pages 17 – 24).

The notes provide additional information that is essential to a full understanding of the data provided in the fund and government-wide financial statements.

Required Supplementary Information (page 26).

In addition to the combined financial statements and accompanying notes, this report also presents certain supplementary information (RSI) as required by the Governmental Accounting Standards Board.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(UNAUDITED)**

THE DISTRICT'S NET POSITION

Over time, net position (assets minus liabilities) may serve as a useful indicator of a government's financial position. At September 30, 2019, the District's assets exceeded its liabilities by \$1,372,415. During the year, revenues exceeded expenses (or an increase in net position) by \$54,013.

The District's Net Position

	Governmental Activities	
	2019	2018
Current and other assets	\$ 442,132	\$ 440,489
Capital assets	1,540,054	1,556,804
Total assets	1,982,186	1,997,293
Long-term liabilities	561,145	651,823
Other liabilities	48,626	37,506
Total liabilities	609,771	689,329
Net position		
Invested in capital assets, net of related debt	978,909	904,981
Restricted	155,534	8,123
Unrestricted	237,972	405,298
Total net position	\$ 1,372,415	\$ 1,318,402

Change in Net Position

	Governmental Activities	
	2019	2018
Revenues		
Property taxes	\$ 646,241	\$ 654,742
Investment income	1,757	3,478
Other revenue	167	145
Total revenues	648,165	658,365
Expenses		
General government	78,567	83,894
Fire protection	492,578	443,964
Interest on long-term debt	23,007	26,082
Total expenses	594,152	553,940
Increase (decrease) in net assets	54,013	104,425
Net assets at beginning of year	1,318,402	1,213,977
Net assets at end of year	\$ 1,372,415	\$ 1,318,402

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(UNAUDITED)**

CAPITAL ASSETS

The District's investment in capital assets as of September 30, 2019 totaled \$1,540,054 (net of accumulated depreciation).

Capital Assets (Net of Depreciation)

	Governmental Activities	
	2019	2018
Land	\$ 69,454	\$ 20,104
Construction in progress	-	32,000
Buildings	510,012	510,012
Furniture and equipment	2,624	2,624
Communication equipment	24,693	24,693
Fire vehicles and equipment	1,519,017	1,445,330
	2,125,800	2,034,763
Less accumulated depreciation	(585,746)	(477,959)
Net	\$ 1,540,054	\$ 1,556,804

Capital additions for the fiscal year totaled \$123,037. The District purchased a 2020 tanker truck, a 2003 Ford F350 brush truck, a jaws unit and land for a new fire station in Ratcliff.

DEBT ADMINISTRATION

During the year, the District made principal payments of \$90,678 on existing debt. No long-term debt was incurred. At the end of the current fiscal year, the District had total debt outstanding of \$561,145.

Debt Outstanding

	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	\$ 251,068	\$ -	\$ (14,381)	\$ 236,687
Leases payable	400,755	-	(76,297)	324,458
Total notes payable	\$ 651,823	\$ -	\$ (90,678)	\$ 561,145

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(UNAUDITED)**

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUND

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related requirements.

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements.

As of September 30, 2019, the District's governmental funds reported a total fund balance of 381,582. Of the total, \$155,534 was restricted for debt service and \$226,048 was unassigned. During the year, the fund balance in the District's governmental fund decreased by \$21,401.

Budget. A comparison of the governmental fund budget and actual results is presented as required supplementary information on page 26. Actual revenues were lower than budgeted amounts by \$15,173. Non-capital and/or debt service expenditures were lower than budgeted amounts by \$5,486.

The governmental fund balance decreased by \$21,401 during the fiscal year; a decrease of \$11,714 (to be funded by prior year positive fund balances) was anticipated.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District at P.O. Box 294, Crockett, Texas 75835.

Basic Financial Statements

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2019

	<u>Fire Protection and Prevention Fund</u>	<u>Adjustments (Note A)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 263,275	\$ -	\$ 263,275
Property taxes receivable, net of allowance	23,223	-	23,223
Restricted cash and cash equivalents	155,534	-	155,534
Other assets	100	-	100
Capital assets			
Nondepreciable	-	69,454	69,454
Depreciable, net of accumulated depreciation	-	1,470,600	1,470,600
TOTAL ASSETS	<u>\$ 442,132</u>	<u>1,540,054</u>	<u>1,982,186</u>
LIABILITIES			
Accounts payable	\$ 4,927	-	4,927
Accrued interest payable	-	16,546	16,546
Due to Ratcliff VFD	27,153	-	27,153
Long-term liabilities			
Due within one year	-	92,681	92,681
Due after one year	-	468,464	468,464
Total liabilities	<u>32,080</u>	<u>577,691</u>	<u>609,771</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	<u>28,470</u>	<u>(28,470)</u>	<u>-</u>
Total deferred inflows of resources	<u>28,470</u>	<u>(28,470)</u>	<u>-</u>
FUND BALANCE/NET POSITION			
Fund balance			
Nonspendable	-	-	-
Restricted for debt service	155,534	(155,534)	-
Unassigned	<u>226,048</u>	<u>(226,048)</u>	<u>-</u>
Total fund balance	<u>381,582</u>	<u>(381,582)</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 442,132</u>		
Net position			
Invested in capital assets, net of related debt		978,909	978,909
Restricted for debt service		155,534	155,534
Unrestricted		<u>237,972</u>	<u>237,972</u>
TOTAL NET POSITION		<u>\$ 1,372,415</u>	<u>\$ 1,372,415</u>

See accompanying notes to the financial statements.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
RECONCILIATION OF GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2019**

**NOTE A – ADJUSTMENTS FROM GOVERNMENTAL FUND
BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

Total governmental fund balance	\$	381,582
Certain revenues are not available to pay current period expenditures and therefore, are deferred in the governmental funds.		28,470
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds.		1,540,054
Interest payable on long-term debt does not require current financial resources and therefore, is not reported in the governmental funds.		(16,546)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.		<u>(561,145)</u>
Net position of governmental activities	\$	<u>1,372,415</u>

See accompanying notes to the financial statements.

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Fire Protection and Prevention Fund	Adjustments (Note B)	Statement of Activities
EXPENDITURES/EXPENSES			
General government			
Tax assessor-collector fees	\$ 33,604	\$ -	\$ 33,604
Appraisal district fees	16,201	-	16,201
Legal and accounting	6,660	-	6,660
Insurance	19,268	-	19,268
Miscellaneous administrative expenses	2,834	-	2,834
Total general government expenditures	78,567	-	78,567
Fire prevention and protection			
Provider service payments	349,298	32,000	381,298
Equipment repairs	3,493	-	3,493
Capital outlay	123,037	(123,037)	-
Debt service			
Principal	90,678	(90,678)	-
Interest	23,526	(519)	23,007
Depreciation	-	107,787	107,787
Total fire prevention and protection expenditures	590,032	(74,447)	515,585
Total expenditures/expenses	668,599	(74,447)	594,152
GENERAL REVENUES			
Property taxes	645,274	967	646,241
Investment earnings	1,757	-	1,757
Other revenue	167	-	167
Total general revenues	647,198	967	648,165
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	(21,401)	21,401	-
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of long-term debt	-	-	-
Total other financing sources (uses)	-	-	-
Excess (deficiency) of revenues over expenditures	(21,401)	21,401	-
Change in net position		54,013	54,013
FUND BALANCE/NET POSITION			
Beginning of the year	402,983	915,419	1,318,402
End of the year	\$ 381,582	\$ 990,833	\$ 1,372,415

See accompanying notes to the financial statements.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
RECONCILIATION OF EXCESS (DEFICIENCY) OF REVENUES
OVER EXPENDITURES - GOVERNMENTAL FUND TO
CHANGE IN NET POSITION - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE B – ADJUSTMENTS FROM EXCESS (DEFICIENCY) OF REVENUES
OVER EXPENDITURES TO CHANGE IN NET POSITION**

Excess (deficiency) of revenues over expenditures - governmental fund	\$	(21,401)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		15,250
The net effect of other miscellaneous transactions involving capital assets (i.e. sales, trade-ins, disposals) decreases net position.		(32,000)
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		967
Repayment of long-term debt is an expenditure in the governmental funds, but is not an expense in the statement of activities.		90,678
Accrued interest expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in the governmental funds.		519
Change in net position - statement of activities	\$	54,013

See accompanying notes to the financial statements.

Notes to the Financial Statements

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial statements of Houston County Emergency Services District No. 2 (the “District”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies used by the District are discussed below.

Reporting Entity

Houston County Emergency Services District No. 2 is a special-purpose government created pursuant to Section 776 of the Texas Health and Safety Code. An election to confirm the creation of the District was held on May 12, 2007 and subsequently confirmed by the Commissioners Court of Houston County, Texas (the Court) on May 22, 2007. The Court authorized the District to levy property taxes not to exceed \$.10 per \$100 of assessed valuation for the purpose of funding fire prevention; suppression and control services; and other emergency services (excluding ambulance services) within its jurisdictional area.

The Court is responsible for the appointment of the governing board of the District; however, the County’s accountability does not extend beyond the board appointment function. The board consists of five members, with two year staggered terms. The President and Vice President are appointed one year and the remaining three commissioners are appointed the following year.

The District has no employees. The governing board is responsible for managing the day to day financial and operational functions of the District.

For financial reporting purposes, based on standards established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, these financial statements should present the District (the primary government) and its component units. Component units generally are legally separate entities for which the primary government is financially accountable or for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading. The District does not have any blended or discretely presented component units.

Government-wide and Fund Financial Statements

GASB Statement No. 34 provides that for special-purpose governments engaged in a single government program, the fund financial statements and the government-wide statements may be combined. The District has elected to present financial statements using this combined method.

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information on all activities of the District as a whole. *Governmental activities* include programs normally supported by taxes, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue sources not properly included with program revenues are reported as

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

general revenues. As a general rule, the effect of interfund activity is eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-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 is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenue when grantor eligibility requirements are satisfied.

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 are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. Debt service expenditures, both principal and interest, are recorded only when payment is due.

Major governmental fund revenues susceptible to accrual include property taxes and investment income. In general, all other revenue items are considered to be measurable and available only when cash is received.

The District is comprised of one *governmental fund*.

The *fire protection and prevention fund* is a special revenue fund used to account the government's primary operating function. It accounts for all financial resources, except those required to be accounted for in another fund.

The District has no proprietary funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the District's policy to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the District that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

Applicable Accounting Standards

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for financial statements of state and local governments. The District has elected to follow all pronouncements of GASB.

Assets, Liabilities, and Net Position or Fund Balance

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand; demand deposits; certificates of deposit; and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less and are stated at fair value.

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

Certificates of deposit consist of deposits with original maturities greater than three months. Certificates of deposit are recorded at cost, which approximates market value.

The District is required by the Public Funds Collateral Act (Government Code, chapter 2257) to maintain security for all deposits of funds that exceed coverage provided by the Federal Deposit Insurance Corporation (“FDIC”). As of the balance sheet date, the District’s cash deposits were fully collateralized by securities pledged by the depository banks. Based on audit procedures conducted in conjunction with the audit of the basic financial statements, the District appears to have complied with the requirements of the Public Funds Collateral Act.

The District is required by the Public Funds Investment Act (Government Code, chapter 2256) (the “Act”) to adopt, implement, and publicize a written investment policy which primarily emphasizes safety of principal and liquidity, and addresses investment diversification, yield, and maturity. Additionally, the policy must address the quality and capability of investment management and include the types of investments in which the entity may invest its funds, as well as the maximum allowable stated maturity of any individual investment, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio of pooled fund groups, and bid requirements for certificates of deposit.

The District is authorized to invest in financial instruments, as authorized by the Act, including:

- U.S. Treasury securities which have a liquid market; direct obligations of the State of Texas, and other obligations that are guaranteed by the State of Texas or United States of America;
- obligations of states, agencies, counties, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent;
- fully insured or collateralized certificates of deposit at commercial banks;
- repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement;
- joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law (the pool must be continuously rated no lower than “AAA” or “AAA-m” by at least one nationally recognized rating service).

The Act also requires an annual audit of investment practices. Audit procedures conducted in conjunction with the audit of the basic financial statements disclosed that the District’s investment practices adhered to its policies and were consistent with the requirements of the Public Funds Investment Act.

The District did not have any investments during the year.

Fair Value of Financial Instruments

The District evaluates the fair value of its non-investment financial instruments based on the current interest rate environment and current pricing of debt instruments with comparable terms. The carrying value of all non-investment financial instruments, including debt, is considered to approximate fair value.

Receivables/Property taxes

The District provides an allowance for delinquent property taxes receivable. All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is calculated using a 93% assessment collection rate.

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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

The District's tax rate on October 1, 2018 was \$.072647 per \$100 of assessed valuation with \$.061014 allocated to maintenance and operation and \$.011633 allocated to interest and sinking. The total tax levied at that time was \$652,104. During the fiscal year, \$644,346 in current and/or delinquent taxes were collected. Of the total, \$431,103 were for maintenance and operation and \$213,243 were for interest and sinking. Delinquent receivables at October 1, 2019 were \$76,990.

In September 2019, the District's Board of Commissioners adopted a tax rate of \$.072647 per \$100 of assessed valuation for the 2019 tax year, with \$.061014 allocated to maintenance and operation and \$.011633 allocated for interest and sinking. The total tax levied on October 1, 2019 was \$713,285.

The District has contracted with the Houston County Tax Assessor-Collector's office for the billing and collection of taxes. The agreement provides for a commission of 5% of net monthly collections and an additional 4.3% of delinquent taxes collected which is withheld by the Tax Assessor-Collector's office.

Capital Assets and Depreciation

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The District uses Internal Revenue Service guidelines to estimate useful lives. The following estimated useful lives are used:

Buildings and improvements	40 years
Fire trucks and ambulances	10 - 20 years
Furniture and equipment	3 - 7 years

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Deferred Inflows of Resources

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 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 only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue – property taxes, is reported only on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in the year incurred.

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Balance

In the government-wide financial statements, the difference between the District's total assets and total liabilities represents net position. Net position is displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. At September 30, 2019, restricted net position consists of amounts reserved for debt service. Unrestricted net position represents the net assets available for future operations.

In the governmental fund financial statements, fund balance is classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form (such as inventories and prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes due to constraints imposed on resources either (a) externally by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Commissioners – the government's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Commissioners.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all other spendable amounts.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Process

An annual budget is prepared and adopted by the District's Board of Commissioners. The budget is prepared on the modified cash basis. GAAP requires that all general and major special revenue funds be budgeted and presented separately in financial statements of governmental entities. The budget is amended, if necessary, during the year. All appropriations lapse at the end of each fiscal year. The original budget for the current fiscal year was amended once during the year.

The District does not employ encumbrance accounting.

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

DETAILED NOTES ON ALL FUNDS

Deposits

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District’s policy requires funds on deposit at depository banks to be collateralized to the extent that the deposits exceed FDIC coverage. As of September 30, 2019, the District’s cash deposits with depository banks totaled \$418,965. All deposits were collateralized by securities pledged by the depository banks with total collateral value of \$831,228, in addition to FDIC coverage.

Cash is reported at fair value. The District had no investments at any time during the fiscal year.

Property Tax Receivables

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are due October 1 and become delinquent January 31. The District levied taxes of \$.072647 per \$100 of assessed valuation on October 1, 2018. The tax assessment and collections for the year ended September 30, 2019 are summarized below:

	<u>Ad Valorem</u>	<u>Rendition</u>	<u>Totals</u>
2018 Assessed property values	\$ 887,249,950	\$ -	\$ 887,249,950
Delinquent taxes receivable at September 30, 2018	\$ 76,544	\$ 446	\$ 76,990
Tax levy, October 1, 2018	651,268	836	652,104
	727,812	1,282	729,094
Less collections	(643,526)	(820)	(644,346)
Less supplements, adjustments and discounts	(15,552)	(326)	(732)
Delinquent taxes receivable at September 30, 2019	68,734	136	68,870
Less allowance for uncollectibles	(45,589)	(58)	(45,647)
Net taxes receivable at September 30, 2019	\$ 23,145	\$ 78	\$ 23,223

District officials estimate that approximately 93% of the taxes levied will ultimately be collected.

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HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

Capital Assets

Capital asset activity for the District for the year ended September 30, 2019 was as follows:

	<u>Balance</u> <u>09/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>09/30/2019</u>
Capital assets, not being depreciated				
Land	\$ 20,104	\$ 49,350	\$ -	\$ 69,454
Construction in progress	<u>32,000</u>	<u>-</u>	<u>(32,000)</u>	<u>-</u>
Total not being depreciated	<u>52,104</u>	<u>49,350</u>	<u>(32,000)</u>	<u>69,454</u>
Capital assets, being depreciated				
Buildings and improvements	510,012	-	-	510,012
Furniture and equipment	2,624	-	-	2,624
Communication equipment	24,693	-	-	24,693
Fire vehicles and equipment	<u>1,445,330</u>	<u>73,687</u>	<u>-</u>	<u>1,519,017</u>
Total being depreciated	<u>1,982,659</u>	<u>73,687</u>	<u>-</u>	<u>2,056,346</u>
Less accumulated depreciation:				
Buildings and improvements	(70,072)	(12,750)	-	(82,822)
Furniture and equipment	(2,624)	-	-	(2,624)
Communication equipment	(20,306)	(634)	-	(20,940)
Fire vehicles and equipment	<u>(384,957)</u>	<u>(94,403)</u>	<u>-</u>	<u>(479,360)</u>
Total accumulated depreciation	<u>(477,959)</u>	<u>(107,787)</u>	<u>-</u>	<u>(585,746)</u>
Total being depreciated, net	<u>1,504,700</u>	<u>-</u>	<u>-</u>	<u>1,470,600</u>
Total capital assets, net	<u>\$ 1,556,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,540,054</u>
				<u>Less associated debt (561,145)</u>
				<u>Invested in capital assets, net of related debt \$ 978,909</u>

Depreciation expense was charged to the following functions/programs of governmental activities as follows:

General government	\$ -
Fire	<u>107,787</u>
Total	<u>\$ 107,787</u>

Long-term Debt

Long-term debt activity for the year ended September 30, 2019 was as follows:

	<u>Balance</u> <u>09/30/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>09/30/2019</u>	<u>Due Within</u> <u>One Year</u>
Notes payable –					
Prosperity Bank	\$ 251,068	\$ -	\$ (14,381)	\$ 236,687	\$ 15,450
Community First	<u>400,755</u>	<u>-</u>	<u>(76,297)</u>	<u>324,458</u>	<u>77,231</u>
Total long-term debt	<u>\$ 651,823</u>	<u>\$ -</u>	<u>\$ (90,678)</u>	<u>\$ 561,145</u>	<u>\$ 92,681</u>

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

The annual debt service requirements to maturity for all long-term debt are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 92,681	\$ 21,522
2021	95,473	18,730
2022	98,841	15,362
2023	102,334	11,870
2024	18,074	8,249
2025-2029	104,189	27,426
2030-2034	<u>49,553</u>	<u>3,663</u>
Total	<u>\$ 561,145</u>	<u>\$ 106,822</u>

Interest expense of \$23,007 was incurred on these notes during the current year.

Notes payable at September 30, 2019, are comprised of the following:

Note Payable to Prosperity Bank - Building. The outstanding balance of the building note payable of \$350,000 to Prosperity Bank, dated September 26, 2011. Interest on the note accrues at 4.125% for the first four annual payments and 4.680% for the 5th through 9th payments. Interest rates may be adjusted on the 5th, 10th, and 15th payments. Annual installments of principal and interest are due each November 15, currently set at \$26,323. The note is collateralized by the District’s ad valorem tax revenue and matures on November 15, 2030.

Lease Purchase Payable to Community First National Bank. In fiscal year 2018, the District executed a master equipment lease purchase agreement with Community First National Bank dated November 11, 2017 in the amount of \$249,755 to purchase a new commercial pumper. The lease purchase bears interest at 2.85% annually. It requires five annual payments of \$54,308, including principal and interest. The note is collateralized by pumper which it serves to finance and matures November 11, 2022.

Lease Purchase Payable to Community First National Bank. In fiscal year 2018, the District executed a master equipment lease purchase agreement with Community First National Bank dated May 11, 2018 in the amount of \$151,000 to purchase a new brush fighter truck. The lease purchase bears interest at 3.99% annually. It requires five annual payments of \$33,573, including principal and interest. The note is collateralized by truck which it serves to finance and matures February 1, 2023.

OTHER INFORMATION

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District provides insurance coverage for each of those risks of loss through its general liability, umbrella, and directors and officers policies. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

Subsequent Events

Management has evaluated subsequent events through January 15, 2020, the date when the financial statements were available to be issued.

**Required Supplementary Information
(unaudited)**

HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2
STATEMENT OF GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Original Budget	Final Appropriated Budget	Actual Amounts	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 612,332	\$ 660,447	\$ 645,274	\$ (15,173)
Investment income	2,000	1,757	1,757	-
Other revenue	-	167	167	-
Total revenues	<u>614,332</u>	<u>662,371</u>	<u>647,198</u>	<u>(15,173)</u>
EXPENDITURES				
Provider service payments - budget	345,420	345,420	345,420	-
Provider service payments - contingency	56,748	3,878	3,878	-
Tax assessor-collector fees	33,228	33,887	33,604	283
Appraisal district fees	17,732	16,201	16,201	-
Legal and accounting	9,150	6,620	6,660	(40)
Insurance	20,000	19,268	19,268	-
Equipment repairs	12,850	8,836	3,493	5,343
Miscellaneous administrative expenses	5,000	2,834	2,834	-
Capital outlay	-	122,937	123,037	(100)
Debt service				
Principal and interest	114,204	114,204	114,204	-
Total expenditures	<u>614,332</u>	<u>674,085</u>	<u>668,599</u>	<u>5,486</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	-	(11,714)	(21,401)	(9,687)
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of long-term debt	-	-	-	-
Net other financing sources (uses)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES AND OTHER USES	-	(11,714)	(21,401)	(9,687)
FUND BALANCE - BEGINNING OF YEAR	<u>402,983</u>	<u>402,983</u>	<u>402,983</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 402,983</u>	<u>\$ 391,269</u>	<u>\$ 381,582</u>	<u>\$ (9,687)</u>

See Independent Auditors' Report.

COMPLIANCE SECTION

Todd, Hamaker & Johnson, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Melvin R. Todd, CPA
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Kim Johnson, CPA
Samantha Wright, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Houston County Emergency Services District No. 2

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major governmental fund of Houston County Emergency Services District No. 2 (the "District"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 15, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS* - CONTINUED**

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP
Lufkin, Texas

January 15, 2020