

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

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Commissioners
Montgomery County Emergency
Services District No. 2

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 major fund of the District as of September 30, 2019, and the respective 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 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund 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.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

May 27, 2020

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Management's discussion and analysis of Montgomery County Emergency Services District No. 2's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) fund financial statements and government-wide financial statements and (2) notes to the financial statements. The fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. This report also includes required supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective like that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position presents information that includes all the District's assets, liabilities, and, if applicable, deferred inflows and outflows of resources with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund. The General Fund accounts for property tax revenues and sales tax revenues which are used for firefighting and emergency services as well as professional and administrative costs.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund financial statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$12,386,674 as of September 30, 2019. A portion of the District's net position reflects its net investment in capital assets (land, buildings, emergency vehicles and equipment, less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide firefighting and fire prevention services within the District. The following is a comparative analysis of government-wide changes in net position:

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 7,591,622	\$ 8,139,346	\$ (547,724)
Capital Assets (Net of Accumulated Depreciation)	9,201,259	7,153,171	2,048,088
Total Assets	\$ 16,792,881	\$ 15,292,517	\$ 1,500,364
Long -Term Liabilities	\$ 4,360,545	\$ 5,087,863	\$ 727,318
Other Liabilities	45,662	235,719	190,057
Total Liabilities	\$ 4,406,207	\$ 5,323,582	\$ 917,375
Net Position:			
Net Investment in Capital Assets	\$ 5,274,875	\$ 3,003,032	\$ 2,271,843
Unrestricted	7,111,799	6,965,903	145,896
Total Net Position	\$ 12,386,674	\$ 9,968,935	\$ 2,417,739

The following table provides a summary of the District's operations for the years ended September 30, 2019, and September 30, 2018.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 4,267,681	\$ 4,113,864	\$ 153,817
Sales Tax Receipts	4,219,080	4,265,523	(46,443)
Lease Revenue	24,000		24,000
Other Revenues	512,032	162,936	349,096
Total Revenues	\$ 9,022,793	\$ 8,542,323	\$ 480,470
Expenses for Services	6,605,054	5,101,131	(1,503,923)
Change in Net Position	\$ 2,417,739	\$ 3,441,192	\$ (1,023,453)
Net Position, Beginning of Year	9,968,935	6,527,743	3,441,192
Net Position, End of Year	\$ 12,386,674	\$ 9,968,935	\$ 2,417,739

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The District's fund balance as of September 30, 2019, was \$7,430,085, a decrease of \$368,592 from the prior year. This decrease was primarily due to operating and capital costs exceeding property tax and sales tax revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. The District had a total negative variance for the year of \$368,592 which was primarily caused by higher than anticipated capital costs offset by contributions from other governmental entities.

CAPITAL ASSETS

Capital assets as of September 30, 2019, total \$9,201,259 (net of accumulated depreciation) and includes land, buildings, vehicles and equipment. Additional information on the District's capital assets can be found in Note 5 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 744,543	\$ 255,212	\$ 489,331
Construction in Progress	705,542	2,889,825	(2,184,283)
Capital Assets, Net of Accumulated Depreciation:			
Buildings	5,692,340	2,372,683	3,319,657
Vehicles and Equipment	2,058,834	1,635,451	423,383
Total Net Capital Assets	<u>\$ 9,201,259</u>	<u>\$ 7,153,171</u>	<u>\$ 2,048,088</u>

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District had total debt payable of \$3,926,384. The changes in the debt position of the District during the fiscal year ended September 30, 2019, are summarized as follows:

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

LONG-TERM DEBT ACTIVITY (Continued)

Capital Leases Payable, October 1, 2018	\$ 635,401
Less: Capital Lease Payments	<u>85,157</u>
Capital Leases Payable, September 30, 2019	<u><u>\$ 550,244</u></u>

Capital Leases Payable:	
Due Within One Year	\$ 86,963
Due After One Year	<u>463,281</u>
Capital Leases Payable, September 30, 2019	<u><u>\$ 550,244</u></u>

Notes Payable, October 1, 2018	\$ 4,061,465
Less: Note Principal Payments	<u>685,325</u>
Notes Payable, September 30, 2019	<u><u>\$ 3,376,140</u></u>

Notes Payable:	
Due Within One Year	\$ 240,188
Due After One Year	<u>3,135,952</u>
Notes Payable, September 30, 2019	<u><u>\$ 3,376,140</u></u>

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Municipal Accounts & Consulting, LP, 611 Longmire Road, Conroe, Texas 77304.

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

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 1,542,330	\$	\$ 1,542,330
Investments	5,186,627		5,186,627
Receivables:			
Property Taxes	113,072		113,072
Penalty and Interest on Delinquent Taxes		7,291	7,291
Sales Tax Receivable	694,510		694,510
Accrued Interest	5,551		5,551
Other	11,785		11,785
Prepaid Costs	30,456		30,456
Land		744,543	744,543
Construction in Progress		705,542	705,542
Capital Assets (Net of Accumulated Depreciation)		7,751,174	7,751,174
TOTAL ASSETS	<u>\$ 7,584,331</u>	<u>\$ 9,208,550</u>	<u>\$ 16,792,881</u>

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

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

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
LIABILITIES			
Accounts Payable	\$ 41,174	\$	\$ 41,174
Accrued Interest Payable		4,488	4,488
Accrued Compensated Absences		434,161	434,161
Capital Leases Payable:			
Due Within One Year		86,963	86,963
Due After One Year		463,281	463,281
Notes Payable:			
Due Within One Year		240,188	240,188
Due After One Year		3,135,952	3,135,952
TOTAL LIABILITIES	<u>\$ 41,174</u>	<u>\$ 4,365,033</u>	<u>\$ 4,406,207</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	<u>\$ 113,072</u>	<u>\$ (113,072)</u>	<u>\$ - 0 -</u>
FUND BALANCE			
Nonspendable: Prepaid Costs	\$ 30,456	(30,456)	
Committed for Compensated Absences	434,161	(434,161)	
Unassigned	<u>6,965,468</u>	<u>(6,965,468)</u>	
TOTAL FUND BALANCE	<u>\$ 7,430,085</u>	<u>\$ (7,430,085)</u>	<u>\$ - 0 -</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 7,584,331</u>		
NET POSITION			
Net Investment in Capital Assets		\$ 5,274,875	\$ 5,274,875
Unrestricted		<u>7,111,799</u>	<u>7,111,799</u>
TOTAL NET POSITION		<u>\$ 12,386,674</u>	<u>\$ 12,386,674</u>

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

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Fund Balance - Governmental Fund	\$	7,430,085
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		9,201,259
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		120,363
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$	(4,488)	
Compensated Absences		(434,161)	
Capital Leases Payable Within One Year		(86,963)	
Capital Leases Payable After One Year		(463,281)	
Notes Payable Within One Year		(240,188)	
Notes Payable After One Year		<u>(3,135,952)</u>	<u>(4,365,033)</u>

Total Net Position - Governmental Activities	\$	<u>12,386,674</u>
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The accompanying notes to the financial
statements are an integral part of this report.

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

	General Fund	Adjustments	Statement of Activities
REVENUES			
Property Taxes	\$ 4,271,680	\$ (3,999)	\$ 4,267,681
Sales Tax Revenues	4,219,080		4,219,080
Lease Revenues	24,000		24,000
Contribution Revenue		309,896	309,896
Miscellaneous Revenues	201,789	347	202,136
TOTAL REVENUES	<u>\$ 8,716,549</u>	<u>\$ 306,244</u>	<u>\$ 9,022,793</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Operations, Maintenance and Administrative	\$ 5,728,021	\$ 43,164	\$ 5,771,185
Commissioner Fees of Office	29,073		29,073
Depreciation		444,171	444,171
Capital Outlay	2,732,107	(2,492,259)	239,848
Debt Service:			
Principal	770,482	(770,482)	
Interest	135,354	(14,577)	120,777
TOTAL EXPENDITURES/EXPENSES	<u>\$ 9,395,037</u>	<u>\$ (2,789,983)</u>	<u>6,605,054</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (678,488)</u>	<u>\$ 3,096,227</u>	<u>\$ 2,417,739</u>
OTHER FINANCING SOURCES (USES)			
Contributed by Other Governmental Unit	\$ 309,896	\$ (309,896)	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ (368,592)	\$ 368,592	\$
CHANGE IN NET POSITION		2,417,739	2,417,739
FUND BALANCE/NET POSITION - OCTOBER 1, 2018	<u>7,798,677</u>	<u>2,170,258</u>	<u>9,968,935</u>
FUND BALANCE/NET POSITION - SEPTEMBER 30, 2019	<u>\$ 7,430,085</u>	<u>\$ 4,956,589</u>	<u>\$ 12,386,674</u>

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

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

Net Change in Fund Balance - Governmental Fund	\$	(368,592)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenues are recorded in the accounting period for which the taxes are levied.		(3,999)
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Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenues are recorded when penalty and interest are assessed.		347
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Governmental funds report compensated absense expense when paid. However, in the Statement of Activities, the expense is recorded when incurred.		(43,164)
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(444,171)
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In the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		2,492,259
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Governmental funds report debt principal payments on long-term liabilities as expenditures in the year paid. However, in the Statement of Net Position, liabilities are reduced when principal payments are made and the Statement of Activities is not affected.		770,482
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		14,577
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Change in Net Position - Governmental Activities	\$	<u>2,417,739</u>
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The accompanying notes to the financial
statements are an integral part of this report.

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

NOTE 1. CREATION OF DISTRICT

Montgomery County Emergency Services District No. 2, located in Montgomery County, Texas (the "District"), operates under Chapter 775 of V.T.C.A. Health & Safety Code. The District was converted from a rural fire prevention district in 1997. The District is a duly organized emergency services district created to protect life and property from fire and to conserve natural and human resources.

The District is governed by a Board of Commissioners consisting of five individuals residing within the District who are appointed by Montgomery County. The Board of Commissioners sets the policies of the District.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The District is a political subdivision of the State of Texas. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separate governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification").

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense in the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Governmental Fund Balance Sheet and a Government Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

General Fund - To account for property tax revenues and sales tax revenues which are used for firefighting and emergency services as well as professional and administrative costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Capital Assets

Capital assets, which include land, buildings, emergency vehicles and equipment, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset after completion.

Capital assets are capitalized if they have an original cost of \$5,000 or more and a useful life of at least two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings and Improvements	30 years
Furniture and Fixtures	5 - 20 years
Vehicles and Equipment	5 - 15 years

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budgetary and Actual – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions

See Note 9 for information related to the District's deferred compensation plans. The Commissioners do not participate in the deferred compensation plans. The Internal Revenue Service has determined that fees of office received by Commissioners are wages subject to federal income tax withholding for payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

established, modified, or rescinded only through ordinances or resolutions approved by the Board. As of September 30, 2019, the District has committed funds of \$434,161 for Compensated Absences (see Note 10).

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. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. TAX LEVY

During the year ended September 30, 2019, the District levied an ad valorem tax rate of \$0.10 per \$100 of assessed valuation, which resulted in a tax levy of \$4,273,157 on the adjusted taxable valuation of \$4,272,808,849 for the 2018 tax year. All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

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

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, 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 fiscal year-end, the carrying amount of the District's deposits was \$1,782,330 and the bank balance was \$2,129,249. The District was not exposed to custodial credit risk at year-end. The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Position at September 30, 2019, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 1,542,330	\$ 240,000	\$ 1,782,330

Investments

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 address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance 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.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

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

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the District measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

The District invests in Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

Certificates of deposit are recorded at acquisition cost. As of September 30, 2019, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 3,206,705	\$ 3,206,705
Texas CLASS	1,739,922	1,739,922
Certificates of Deposit	<u>240,000</u>	<u>240,000</u>
TOTAL INVESTMENTS	<u><u>\$ 5,186,627</u></u>	<u><u>\$ 5,186,627</u></u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2019, the District's investments in TexPool and Texas CLASS were rated AAAm by Standard and Poor's. The District also manages credit risk by investing in certificates of deposit covered by FDIC insurance. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and Texas CLASS to have maturities of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

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

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019:

	October 1, 2018	Increases	Decreases	September 30, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 255,212	\$ 489,331	\$	\$ 744,543
Construction in Progress	<u>2,889,825</u>	<u>2,492,259</u>	<u>4,676,542</u>	<u>705,542</u>
Total Capital Assets Not Being Depreciated	<u>\$ 3,145,037</u>	<u>\$ 2,981,590</u>	<u>\$ 4,676,542</u>	<u>\$ 1,450,085</u>
Capital Assets Subject to Depreciation				
Buildings	\$ 3,859,786	\$ 3,567,224	\$	\$ 7,427,010
Vehicles and Equipment	<u>5,272,593</u>	<u>619,987</u>	<u></u>	<u>5,892,580</u>
Total Capital Assets Subject to Depreciation	<u>\$ 9,132,379</u>	<u>\$ 4,187,211</u>	<u>\$ - 0 -</u>	<u>\$ 13,319,590</u>
Accumulated Depreciation				
Buildings	\$ 1,487,103	\$ 247,567	\$	\$ 1,734,670
Vehicles and Equipment	<u>3,637,142</u>	<u>196,604</u>	<u></u>	<u>3,833,746</u>
Total Accumulated Depreciation	<u>\$ 5,124,245</u>	<u>\$ 444,171</u>	<u>\$ - 0 -</u>	<u>\$ 5,568,416</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 4,008,134</u>	<u>\$ 3,743,040</u>	<u>\$ - 0 -</u>	<u>\$ 7,751,174</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 7,153,171</u></u>	<u><u>\$ 6,724,630</u></u>	<u><u>\$ 4,676,542</u></u>	<u><u>\$ 9,201,259</u></u>

NOTE 6. CAPITAL LEASES

On August 30, 2017, the District entered into a \$720,000 equipment lease-purchase agreement with ZB, N.A. Proceeds were used to finance the acquisition of a new Impel pumper truck. The note bears interest at 2.11% per annum. Assets under the lease total \$792,214 at September 30, 2019. Accumulated depreciation through September 30, 2019, totaled \$118,819. The District makes semi-annual payments of \$49,059 plus interest with the last payment due on August 1, 2025.

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

NOTE 6. CAPITAL LEASES (Continued)

The following is a summary of transactions regarding capital leases payable for the year ended September 30, 2019:

Capital Leases Payable, October 1, 2018	\$ 635,401
Less: Capital Lease Payments	<u>85,157</u>
Capital Leases Payable, September 30, 2019	<u><u>\$ 550,244</u></u>

Capital Leases Payable:	
Due Within One Year	\$ 86,963
Due After One Year	<u>463,281</u>
Capital Leases Payable, September 30, 2019	<u><u>\$ 550,244</u></u>

The following is a schedule of future capital lease payments:

Fiscal Year	Principal	Interest	Total
2020	\$ 86,963	\$ 11,154	\$ 98,117
2021	88,808	9,309	98,117
2022	90,692	7,426	98,118
2023	92,615	5,502	98,117
2024	94,580	3,537	98,117
2025	<u>96,586</u>	<u>1,531</u>	<u>98,117</u>
	<u><u>\$ 550,244</u></u>	<u><u>\$ 38,459</u></u>	<u><u>\$ 588,703</u></u>

NOTE 7. NOTES PAYABLE

On February 15, 2007, the District entered into a \$500,000 note to finance the construction of Station 51. The note bears interest at the rate of 4.25% per year. The District makes annual payments of \$45,273 with the last payment due on February 15, 2021.

On October 31, 2012, the District entered into a \$900,000 note to finance the construction of Station 53. The note bears interest at the rate of 2.30% per year. The District makes annual payments of \$90,000 plus interest with the last payment due on October 31, 2022. The District paid off this note early, and was paid in full at year-end.

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

NOTE 7. NOTES PAYABLE (Continued)

On August 27, 2014, the District executed a note to finance the purchase of two 2015 pumper trucks. The note bears interest at 2.30% per annum. The District makes semi-annual payments of \$40,535 plus interest with the last payment due on August 27, 2024.

On September 25, 2017, the District entered into a \$3,000,000 loan agreement with First Financial Bank, N. A. Proceed were used to finance the construction of Station 52. The note bears interest at the rate of 2.75% per year. The District will make semi-annual payments of \$98,008 including interest with the last payment due on September 25, 2038.

The following is a summary of transactions regarding the notes payable for the year ended September 30, 2019:

Notes Payable, October 1, 2018	\$ 4,061,465
Less: Note Principal Payments	<u>685,325</u>
Notes Payable, September 30, 2019	<u>\$ 3,376,140</u>
Notes Payable:	
Due Within One Year	\$ 240,188
Due After One Year	<u>3,135,952</u>
Notes Payable, September 30, 2019	<u>\$ 3,376,140</u>

The following is a schedule of future note payments:

Fiscal Year	Principal	Interest	Total
2020	\$ 240,188	\$ 84,257	\$ 324,445
2021	245,213	78,793	324,006
2022	205,126	73,167	278,293
2023	208,561	69,293	277,854
2024	212,091	65,325	277,416
2025-2029	711,574	268,506	980,080
2030-2034	815,696	164,383	980,079
2035-2038	<u>737,691</u>	<u>46,371</u>	<u>784,062</u>
	<u>\$ 3,376,140</u>	<u>\$ 850,095</u>	<u>\$ 4,226,235</u>

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

NOTE 8. 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, for which the District carries commercial insurance. The District participates in the Texas Municipal League Intergovernmental Risk Pool ("TML") to provide various types of insurance and liability coverage. The District, along with other participating entities, contributes annual amounts determined by the insurers' management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 9. DEFERRED COMPENSATION PLANS

The District offers its employees two deferred compensation plans, a Section 457 plan and a Section 401(a) plan. These plans are qualified prototype plans approved by the Internal Revenue Service and administered by a national brokerage firm, which also serves as trustee or custodian of assets of the plans.

The 401(a) plan is a defined contribution retirement plan in lieu of social security. Employees are required to contribute 6.5% to the plan and each employee participant directs the investment in his/her respective account. The District matches employee contributions. During the current year, the District approved and funded contributions in the amount of \$250,280 and employees contributed \$248,092.

The 457B plan is a non-qualified, tax advantaged deferred-compensation retirement plan. John Hancock Life Insurance Company is the trustee of the plan assets. Employees may make contributions to the plan and directs his/her respective account. During the current year, the District approved and funded contributions in the amount of \$281,439, and employees contributed \$317,986.

NOTE 10. COMPENSATED ABSENCES

The District maintains a formal policy for vacation and compensatory time benefits. District policy permits eligible employees to accumulate earned and unused vacation and compensatory time benefits. Annually, at the end of each fiscal year, the monetary value of the unused vacation and compensatory time is deposited into a separate account on behalf of the employee. All bank accounts are under complete control of the District. These benefit funds are considered a vested employee benefit and may be paid to employees in the event of serious illness or injury and upon separation from service with the District. The benefit fund accounts are included in cash within the Statement of Net Position and the General Fund Balance Sheet. The offsetting liability for employee vacation and compensatory time benefits is included within the Statement of Net Position.

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

NOTE 10. COMPENSATED ABSENCES (Continued)

It is the District's policy to liquidate compensated absences with currently available expendable resources. Accordingly, the District's governmental funds recognized accrued compensation absences when it is paid. In the prior year, the District recorded a liability of \$390,997 for accrued compensation absences. The increase in the current year was \$43,164 for a balance at September 30, 2019 of \$434,161.

NOTE 11. SALES TAX AUTHORIZATION

At an election held May 7, 2016, District voters authorized the levy of a sales tax of 2% on sales of eligible goods sold within the District pursuant to Health and Safety Code Section 775.0751. During the current year, the District collected \$4,219,080 in sales tax revenue with \$694,510 recorded as a receivable at year-end.

NOTE 12. AGREEMENTS WITH OTHER GOVERNMENTS

On April 25, 2018, the District entered into a Housing Agreement with Montgomery County Emergency Services District No. 3 ("ESD No. 3"). Upon completion of the construction of a fire station located at 19530 Keenan Cutoff Road, the District intends for the construction to include facilities for ESD No. 3 personnel and equipment. ESD No. 3 agrees to pay a monthly fee, in the amount of \$2,000, for its use of these facilities. In addition, a one-time capital contribution of \$109,896 will be contributed toward the construction of this station. The agreement is for twenty years unless terminated as provided for in the agreement. During the current year, ESD No. 3 paid the \$109,896 capital contribution, and \$16,000 in rental payments.

On August 8, 2018, the District entered into a Housing Agreement with Montgomery County Hospital District ("MCHD"). Upon completion of the construction of a fire station located at 19530 Keenan Cutoff Road, the District intends for the construction to include facilities for MCHD personnel and equipment. MCHD agrees to pay a monthly rental fee, in the amount of \$1,000, for its use of these facilities. In addition, a one-time capital contribution of \$200,000 will be contributed toward the construction of this station. The agreement is for twenty years unless terminated as provided for in the agreement. During the current year, MCHD paid the \$200,000 capital contribution, and \$8,000 in rental payments.

NOTE 13. UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. As a result, economic uncertainties have arisen which are likely to have an impact on the operations of the District. The District is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty, as the potential financial impact of this pandemic is unknown at this time.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 4,213,977	\$ 4,271,680	\$ 57,703
Sales Tax Revenues	3,086,000	4,219,080	1,133,080
Lease Revenues		24,000	24,000
Miscellaneous Revenues	<u>30,350</u>	<u>201,789</u>	<u>171,439</u>
TOTAL REVENUES	<u>\$ 7,330,327</u>	<u>\$ 8,716,549</u>	<u>\$ 1,386,222</u>
EXPENDITURES			
Services Operations:			
Operations, Maintenance and Administrative	\$ 5,884,756	\$ 5,728,021	\$ 156,735
Commissioner Fees of Office	15,000	29,073	(14,073)
Capital Outlay	900,000	2,732,107	(1,832,107)
Debt Service:			
Principal	377,906	770,482	(392,576)
Interest	<u>152,665</u>	<u>135,354</u>	<u>17,311</u>
TOTAL EXPENDITURES	<u>\$ 7,330,327</u>	<u>\$ 9,395,037</u>	<u>\$ (2,064,710)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -0-</u>	<u>\$ (678,488)</u>	<u>\$ (678,488)</u>
OTHER FINANCING SOURCES(USES)			
Contributed by Other Governmental Unit	<u>\$ - 0 -</u>	<u>\$ 309,896</u>	<u>\$ 309,896</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ (368,592)	\$ (368,592)
FUND BALANCE - OCTOBER 1, 2018	<u>7,798,677</u>	<u>7,798,677</u>	
FUND BALANCE - SEPTEMBER 30, 2019	<u>\$ 7,798,677</u>	<u>\$ 7,430,085</u>	<u>\$ (368,592)</u>

See accompanying independent auditor's report.

