

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

**MONTGOMERY COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2025**

**McCALL GIBSON SWEDLUND BARFOOT ELLIS PLLC**  
Certified Public Accountants

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# ***McCall Gibson Swedlund Barfoot Ellis PLLC***

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinions**

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, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2025, 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.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **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 is the responsibility of management and, 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 Ellis PLLC*

McCall Gibson Swedlund Barfoot Ellis PLLC  
Certified Public Accountants  
Houston, Texas

April 22, 2026

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE YEAR ENDED SEPTEMBER 30, 2025**

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, 2025. 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 Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. 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 two governmental fund types. The General Fund accounts for resources not accounted for in another fund, property tax revenues and sales tax revenues which are used for firefighting and emergency services as well as professional and administrative costs. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing debt.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

**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 Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances 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 \$28,334,198 as of September 30, 2025. A portion of the District's net position reflects its net investment in capital assets and right-of-use 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, 2025**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

|                                           | Summary of Changes in the Statement of Net Position |               |                                  |
|-------------------------------------------|-----------------------------------------------------|---------------|----------------------------------|
|                                           | 2025                                                | 2024          | Change<br>Positive<br>(Negative) |
| Current and Other Assets                  | \$ 21,027,603                                       | \$ 18,021,881 | \$ 3,005,722                     |
| Capital Assets and<br>Right-of-Use Assets | 18,523,334                                          | 17,950,193    | 573,141                          |
| Total Assets                              | \$ 39,550,937                                       | \$ 35,972,074 | \$ 3,578,863                     |
| Long -Term Liabilities                    | \$ 10,419,748                                       | \$ 9,651,217  | \$ (768,531)                     |
| Other Liabilities                         | 248,972                                             | 213,443       | (35,529)                         |
| Total Liabilities                         | \$ 10,668,720                                       | \$ 9,864,660  | \$ (804,060)                     |
| Deferred Inflows of Resources             | \$ 548,019                                          | \$ 584,292    | \$ 36,273                        |
| Net Position:                             |                                                     |               |                                  |
| Net Investment in Capital Assets          | \$ 9,370,920                                        | \$ 9,782,271  | \$ (411,351)                     |
| Restricted                                | 585,961                                             | 558,186       | 27,775                           |
| Unrestricted                              | 18,377,317                                          | 15,182,665    | 3,194,652                        |
| Total Net Position                        | \$ 28,334,198                                       | \$ 25,523,122 | \$ 2,811,076                     |

The following table provides a summary of the District's operations for the years ended September 30, 2025, and September 30, 2024.

|                                 | Summary of Changes in the Statement of Activities |               |                                  |
|---------------------------------|---------------------------------------------------|---------------|----------------------------------|
|                                 | 2025                                              | 2024          | Change<br>Positive<br>(Negative) |
| Revenues:                       |                                                   |               |                                  |
| Property Taxes                  | \$ 6,864,330                                      | \$ 6,255,089  | \$ 609,241                       |
| Sales Tax Receipts              | 7,805,252                                         | 6,490,412     | 1,314,840                        |
| Lease Revenue                   | 61,368                                            | 79,830        | (18,462)                         |
| Other Revenues                  | 1,009,930                                         | 1,273,380     | (263,450)                        |
| Total Revenues                  | \$ 15,740,880                                     | \$ 14,098,711 | \$ 1,642,169                     |
| Expenses for Services           | 12,929,804                                        | 11,732,743    | (1,197,061)                      |
| Change in Net Position          | \$ 2,811,076                                      | \$ 2,365,968  | \$ 445,108                       |
| Net Position, Beginning of Year | 25,523,122                                        | 23,157,154    | 2,365,968                        |
| Net Position, End of Year       | \$ 28,334,198                                     | \$ 25,523,122 | \$ 2,811,076                     |

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of September 30, 2025, were \$19,961,046, an increase of \$2,937,375 from the prior year.

The General Fund fund balance increased by \$2,914,440, primarily due property and sales tax revenues and other revenues to exceeding operating costs and capital outlay.

The Debt Service Fund balance increased by \$22,935, primarily due to the structure of the District's outstanding debt service requirements.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors adopted an unappropriated budget for the General Fund. Actual revenues were \$1,836,180 more than budgeted and actual expenditures were \$1,070,320 less than budgeted, for a net positive variance for the year of \$2,914,440.

**CAPITAL ASSETS**

Capital assets as of September 30, 2025, total \$18,134,987 (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 |                      |                      |                                  |
|-------------------------------------------------------------|----------------------|----------------------|----------------------------------|
|                                                             | 2025                 | 2024                 | Change<br>Positive<br>(Negative) |
| Capital Assets Not Being Depreciated:                       |                      |                      |                                  |
| Land and Land Improvements                                  | \$ 2,430,442         | \$ 1,238,004         | \$ 1,192,438                     |
| Construction in Progress                                    | 154,811              | 4,451,443            | (4,296,632)                      |
| Capital Assets, Net of Accumulated Depreciation:            |                      |                      |                                  |
| Buildings                                                   | 12,218,605           | 8,286,452            | 3,932,153                        |
| Vehicles and Equipment                                      | <u>3,331,129</u>     | <u>3,536,430</u>     | <u>(205,301)</u>                 |
| Total Net Capital Assets                                    | <u>\$ 18,134,987</u> | <u>\$ 17,512,329</u> | <u>\$ 622,658</u>                |

**RIGHT-OF-USE ASSETS**

Right-of-use assets consisting of the Logistics Facility land lease valued at \$41,730 and the Engine 51 - Impel pumper truck and related equipment totaled \$742,752, had current year amortization expense of \$49,517 and accumulated amortization balance of \$346,617 as of September 30, 2025.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total debt payable of \$9,177,414. The changes in the debt position of the District during the fiscal year ended September 30, 2025, are summarized as follows:

|                                    |                     |
|------------------------------------|---------------------|
| Leases Payable, October 1, 2024    | \$ 118,764          |
| Less: Leases Payments              | <u>105,796</u>      |
| Leases Payable, September 30, 2025 | <u>\$ 12,968</u>    |
| Leases Payable:                    |                     |
| Due Within One Year                | \$ 10,258           |
| Due After One Year                 | <u>2,710</u>        |
| Leases Payable, September 30, 2025 | <u>\$ 12,968</u>    |
|                                    |                     |
| Loan Payable, October 1, 2024      | \$ 8,467,618        |
| Add: Loan Proceeds                 | 3,473,000           |
| Less: Loan Principal Payments      | <u>2,776,172</u>    |
| Loan Payable, September 30, 2025   | <u>\$ 9,164,446</u> |
|                                    |                     |
| Loan Payable:                      |                     |
| Due Within One Year                | \$ 780,876          |
| Due After One Year                 | <u>8,383,570</u>    |
| Loan Payable, September 30, 2025   | <u>\$ 9,164,446</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 Coveler & Peeler, PC, 820 Gessner, Suite 1710, Houston, Texas 77024-4298.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2025**

|                                          | <u>General Fund</u>         | <u>Debt<br/>Service Fund</u> |
|------------------------------------------|-----------------------------|------------------------------|
| <b>ASSETS</b>                            |                             |                              |
| Cash                                     | \$ 4,081,983                | \$                           |
| Investments                              | 14,259,711                  | 555,136                      |
| Receivables:                             |                             |                              |
| Property Taxes                           | 276,236                     | 14,328                       |
| Penalty and Interest on Delinquent Taxes |                             |                              |
| Sales Tax Receivable                     | 1,242,992                   |                              |
| Accrued Interest                         | 3,585                       |                              |
| Lease Receivable, Due Within One Year    |                             |                              |
| Lease Receivable, Due After One Year     |                             |                              |
| Due from Other Funds                     |                             | 16,497                       |
| Prepaid Costs                            | 868                         |                              |
| Right-of-Use Land                        |                             |                              |
| Land                                     |                             |                              |
| Construction in Progress                 |                             |                              |
| Right-of-Use Assets                      |                             |                              |
| (Net of Accumulated Amortization)        |                             |                              |
| Capital Assets                           |                             |                              |
| (Net of Accumulated Depreciation)        |                             |                              |
| <b>TOTAL ASSETS</b>                      | <u><u>\$ 19,865,375</u></u> | <u><u>\$ 585,961</u></u>     |

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

| <u>Total</u>         | <u>Adjustments</u>   | <u>Statement of<br/>Net Position</u> |
|----------------------|----------------------|--------------------------------------|
| \$ 4,081,983         | \$                   | \$ 4,081,983                         |
| 14,814,847           |                      | 14,814,847                           |
| 290,564              |                      | 290,564                              |
|                      | 13,312               | 13,312                               |
| 1,242,992            |                      | 1,242,992                            |
| 3,585                |                      | 3,585                                |
|                      | 30,161               | 30,161                               |
|                      | 549,291              | 549,291                              |
| 16,497               | (16,497)             |                                      |
| 868                  |                      | 868                                  |
|                      | 41,730               | 41,730                               |
|                      | 2,430,442            | 2,430,442                            |
|                      | 154,811              | 154,811                              |
|                      | 346,617              | 346,617                              |
|                      | <u>15,549,734</u>    | <u>15,549,734</u>                    |
| <u>\$ 20,451,336</u> | <u>\$ 19,099,601</u> | <u>\$ 39,550,937</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 FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2025**

|                                                                               | <u>General Fund</u>         | <u>Debt<br/>Service Fund</u> |
|-------------------------------------------------------------------------------|-----------------------------|------------------------------|
| <b>LIABILITIES</b>                                                            |                             |                              |
| Accounts Payable                                                              | \$ 183,229                  | \$                           |
| Accrued Interest Payable                                                      |                             |                              |
| Accrued Compensated Absences                                                  |                             |                              |
| Due to Other Funds                                                            | 16,497                      |                              |
| Leases Payable:                                                               |                             |                              |
| Due Within One Year                                                           |                             |                              |
| Due Within One Year                                                           |                             |                              |
| Loan Payable:                                                                 |                             |                              |
| Due Within One Year                                                           |                             |                              |
| Due After One Year                                                            |                             |                              |
|                                                                               | <u>                    </u> | <u>                    </u>  |
| <b>TOTAL LIABILITIES</b>                                                      | <u>\$ 199,726</u>           | <u>\$ -0-</u>                |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                          |                             |                              |
| Property Taxes                                                                | \$ 276,236                  | \$ 14,328                    |
| Lease Revenues                                                                |                             |                              |
|                                                                               | <u>                    </u> | <u>                    </u>  |
| <b>TOTAL DEFERRED INFLOWS OF<br/>RESOURCES</b>                                | <u>\$ 276,236</u>           | <u>\$ 14,328</u>             |
| <b>FUND BALANCES</b>                                                          |                             |                              |
| Nonspendable: Prepaid Costs                                                   | \$ 868                      | \$                           |
| Restricted for Debt Service                                                   |                             | 571,633                      |
| Committed for Compensated Absences                                            | 1,242,334                   |                              |
| Committed for Construction                                                    | 25,000                      |                              |
| Unassigned                                                                    | 18,121,211                  |                              |
|                                                                               | <u>                    </u> | <u>                    </u>  |
| <b>TOTAL FUND BALANCES</b>                                                    | <u>\$ 19,389,413</u>        | <u>\$ 571,633</u>            |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCES</b> | <u>\$ 19,865,375</u>        | <u>\$ 585,961</u>            |
| <b>NET POSITION</b>                                                           |                             |                              |
| Net Investment in Capital Assets                                              |                             |                              |
| Restricted for Debt Service                                                   |                             |                              |
| Unrestricted                                                                  |                             |                              |
| <b>TOTAL NET POSITION</b>                                                     |                             |                              |

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

| Total                | Adjustments            | Statement of<br>Net Position |
|----------------------|------------------------|------------------------------|
| \$ 183,229           | \$                     | \$ 183,229                   |
|                      | 65,743                 | 65,743                       |
|                      | 1,242,334              | 1,242,334                    |
| 16,497               | (16,497)               |                              |
|                      | 10,258                 | 10,258                       |
|                      | 2,710                  | 2,710                        |
|                      | 780,876                | 780,876                      |
|                      | 8,383,570              | 8,383,570                    |
| <u>\$ 199,726</u>    | <u>\$ 10,468,994</u>   | <u>\$ 10,668,720</u>         |
| \$ 290,564           | \$ (290,564)           | \$                           |
|                      | 548,019                | 548,019                      |
| <u>\$ 290,564</u>    | <u>\$ 257,455</u>      | <u>\$ 548,019</u>            |
| \$ 868               | (868)                  | \$                           |
| 571,633              | (571,633)              |                              |
| 1,242,334            | (1,242,334)            |                              |
| 25,000               | (25,000)               |                              |
| 18,121,211           | (18,121,211)           |                              |
| <u>\$ 19,961,046</u> | <u>\$ (19,961,046)</u> | <u>\$ - 0 -</u>              |
| <u>\$ 20,451,336</u> |                        |                              |
|                      | \$ 9,370,920           | \$ 9,370,920                 |
|                      | 585,961                | 585,961                      |
|                      | 18,377,317             | 18,377,317                   |
|                      | <u>\$ 28,334,198</u>   | <u>\$ 28,334,198</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 FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2025**

|                                   |               |
|-----------------------------------|---------------|
| Fund Balance - Governmental Funds | \$ 19,961,046 |
|-----------------------------------|---------------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

|                                                                                                                                                                                  |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Capital assets and right-of-use assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. | 18,523,334 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|

|                                                                                                                                                                                                                                            |         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2024 and prior tax levies became part of recognized revenue in the governmental activities of the District. | 303,876 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

|                                                                                                                                                                       |        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Leases receivable and the corresponding deferred inflows of resources are reported in the government-wide financial statements in accordance with auditing standards. | 31,433 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|

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                     | \$ (65,743)        |                      |
| Compensated Absences                         | (1,242,334)        |                      |
| Lease Payable Within One Year                | (10,258)           |                      |
| Lease Payable After One Year                 | (2,710)            |                      |
| Loan Payable Within One Year                 | (780,876)          |                      |
| Loan Payable After One Year                  | <u>(8,383,570)</u> | <u>(10,485,491)</u>  |
| Total Net Position - Governmental Activities |                    | <u>\$ 28,334,198</u> |

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 FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

|                                                                       | <u>General Fund</u>  | <u>Debt<br/>Service Fund</u> |
|-----------------------------------------------------------------------|----------------------|------------------------------|
| <b>REVENUES</b>                                                       |                      |                              |
| Property Taxes                                                        | \$ 6,420,607         | \$ 351,950                   |
| Sales Tax Revenues                                                    | 7,805,252            |                              |
| TIFMAS Reimbursement                                                  | 260,936              |                              |
| Lease Revenues                                                        | 54,000               |                              |
| Miscellaneous Revenues                                                | <u>721,385</u>       | <u>24,285</u>                |
| <b>TOTAL REVENUES</b>                                                 | <u>\$ 15,262,180</u> | <u>\$ 376,235</u>            |
| <b>EXPENDITURES/EXPENSES</b>                                          |                      |                              |
| Service Operations:                                                   |                      |                              |
| Operations, Maintenance and Administrative                            | \$ 11,272,270        | \$                           |
| Commissioner Fees of Office                                           | 13,650               |                              |
| Depreciation/Amortization                                             |                      |                              |
| Capital Outlay                                                        | 524,408              |                              |
| Capital Outlay-Debt Funded                                            | 1,192,438            |                              |
| Debt Service:                                                         |                      |                              |
| Principal                                                             | 395,767              | 237,426                      |
| Interest                                                              | <u>149,585</u>       | <u>115,874</u>               |
| <b>TOTAL EXPENDITURES/EXPENSES</b>                                    | <u>\$ 13,548,118</u> | <u>\$ 353,300</u>            |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER<br/>EXPENDITURES/EXPENSES</b> | <u>\$ 1,714,062</u>  | <u>\$ 22,935</u>             |
| <b>OTHER FINANCING SOURCES (USES)</b>                                 |                      |                              |
| Loan Proceeds                                                         | \$ 3,473,000         |                              |
| Refinanced Loan                                                       | <u>(2,272,622)</u>   |                              |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                           | <u>\$ 1,200,378</u>  | <u>\$ -0-</u>                |
| <b>NET CHANGE IN FUND BALANCE</b>                                     | \$ 2,914,440         | \$ 22,935                    |
| <b>CHANGE IN NET POSITION</b>                                         |                      |                              |
| <b>FUND BALANCES/NET POSITION -<br/>OCTOBER 1, 2024</b>               | <u>16,474,973</u>    | <u>548,698</u>               |
| <b>FUND BALANCES/NET POSITION -<br/>SEPTEMBER 30, 2025</b>            | <u>\$ 19,389,413</u> | <u>\$ 571,633</u>            |

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

| Total                | Adjustments           | Statement of<br>Activities |
|----------------------|-----------------------|----------------------------|
| \$ 6,772,557         | \$ 91,773             | \$ 6,864,330               |
| 7,805,252            |                       | 7,805,252                  |
| 260,936              |                       | 260,936                    |
| 54,000               | 7,368                 | 61,368                     |
| 745,670              | 3,324                 | 748,994                    |
| <u>\$ 15,638,415</u> | <u>\$ 102,465</u>     | <u>\$ 15,740,880</u>       |
| <br>                 |                       |                            |
| \$ 11,272,270        | \$ 177,499            | \$ 11,449,769              |
| 13,650               |                       | 13,650                     |
|                      | 1,143,705             | 1,143,705                  |
| 524,408              | (524,408)             |                            |
| 1,192,438            | (1,192,438)           |                            |
| 633,193              | (633,193)             |                            |
| 265,459              | 57,221                | 322,680                    |
| <u>\$ 13,901,418</u> | <u>\$ (971,614)</u>   | <u>12,929,804</u>          |
| <br>                 |                       |                            |
| \$ 1,736,997         | \$ 1,074,079          | \$ 2,811,076               |
| <br>                 |                       |                            |
| \$ 3,473,000         | \$ (3,473,000)        | \$                         |
| (2,272,622)          | 2,272,622             |                            |
| <u>\$ 1,200,378</u>  | <u>\$ (1,200,378)</u> | <u>\$ -0-</u>              |
| <br>                 |                       |                            |
| \$ 2,937,375         | \$ (2,937,375)        |                            |
|                      | 2,811,076             | 2,811,076                  |
| 17,023,671           | 8,499,451             | 25,523,122                 |
| <u>\$ 19,961,046</u> | <u>\$ 8,373,152</u>   | <u>\$ 28,334,198</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 BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

|                                                                                                                                                                                                                                                                     |                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Net Change in Fund Balance - Governmental Funds                                                                                                                                                                                                                     | \$ 2,937,375        |
| 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.                                                                                      | 91,773              |
| 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.                                                                     | 3,324               |
| Governmental Funds report lease revenues when paid. However, in the Statement of Activities, lease receivables are reduced when principal payments are received and deferred revenues are reported.                                                                 | 7,368               |
| Governmental funds report compensated absence expense when paid. However, in the Statement of Activities, the expense is recorded when incurred.                                                                                                                    | (177,499)           |
| Governmental funds do not account for depreciation and amortization. However, in the Statement of Net Position, capital assets are depreciated, right-of-use assets are amortized and depreciation/amortization expense is recorded in the Statement of Activities. | (1,143,705)         |
| In the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.                                                                                                                                    | 1,716,846           |
| 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.   | 2,905,815           |
| 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.                                                   | (57,221)            |
| Governmental funds report capital lease proceeds as other financing sources. Capital lease proceeds increase long-term liabilities in the Statement of Net Position.                                                                                                | (3,473,000)         |
| Change in Net Position - Governmental Activities                                                                                                                                                                                                                    | <u>\$ 2,811,076</u> |

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, 2025**

**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, 2025**

**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

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

Governmental Fund

The District has two governmental funds and considers it to be major funds.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**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.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing debt.

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 and Right-to-Use 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, 2025**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets and Right-to-Use Assets (Continued)

In accordance with GASB Statement No. 87, at September 30, 2025, the District recorded one vehicle and related equipment and land as right-to-use assets (see Note 6). The right-to-use assets are being amortized over the estimated useful life using the straight-line method of amortization.

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 budget 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.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

*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.

*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 established, modified, or rescinded only through ordinances or resolutions approved by the Board. As of September 30, 2025, the District has committed funds of \$1,242,334 for Compensated Absences (see Note 10). The District has also committed funds of \$25,000 for capital improvements.

*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, 2025, the District levied an ad valorem debt service tax rate of \$0.0052 per \$100 of assessed valuation, which resulted in a tax levy of \$353,817 on the adjusted taxable valuation of \$6,802,661,465 for the 2024 tax year. The District entered into a promissory note with Government Capital Corporation, the District granted a security interest in ad valorem tax revenues sufficient to pay interest and principal on the note when due.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 3. TAX LEVY (Continued)**

During the year ended September 30, 2025, the District levied an ad valorem maintenance tax rate of \$0.0948 per \$100 of assessed valuation, which resulted in a tax levy of \$6,450,348 on the adjusted taxable valuation of \$6,802,661,465 for the 2024 tax year. This maintenance tax is to be used by the General Fund to pay operating costs.

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.

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 \$4,316,983 and the bank balance was \$4,496,700. 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, 2025, as listed below:

|              | Cash         | Certificates<br>of Deposit | Total        |
|--------------|--------------|----------------------------|--------------|
| GENERAL FUND | \$ 4,081,983 | \$ 235,000                 | \$ 4,316,983 |

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

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.

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. Federal Hermes, 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. UMB 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.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Certificates of deposit are recorded at acquisition cost. As of September 30, 2025, the District had the following investments and maturities:

| Fund and<br>Investment Type | Fair Value                  | Maturities of<br>Less Than<br>1 Year |
|-----------------------------|-----------------------------|--------------------------------------|
| <u>GENERAL FUND</u>         |                             |                                      |
| TexPool                     | \$ 1,651,818                | \$ 1,651,818                         |
| Texas CLASS                 | 12,372,893                  | 12,372,893                           |
| Certificates of Deposit     | 235,000                     | 235,000                              |
| <u>DEBT SERVICE FUND</u>    |                             |                                      |
| Texas CLASS                 | 555,136                     | 555,136                              |
| <b>TOTAL INVESTMENTS</b>    | <u><b>\$ 14,814,847</b></u> | <u><b>\$14,814,847</b></u>           |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2025, 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.

Restrictions - All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2025:

|                                                                          | October 1,<br>2024   | Increases           | Decreases           | September 30,<br>2025 |
|--------------------------------------------------------------------------|----------------------|---------------------|---------------------|-----------------------|
| <b>Capital Assets Not Being Depreciated</b>                              |                      |                     |                     |                       |
| Land and Land Improvements                                               | \$ 1,238,004         | \$ 1,192,438        | \$                  | \$ 2,430,442          |
| Construction in Progress                                                 | <u>4,451,443</u>     | <u>1,716,846</u>    | <u>6,013,478</u>    | <u>154,811</u>        |
| <b>Total Capital Assets Not Being Depreciated</b>                        | <u>\$ 5,689,447</u>  | <u>\$ 2,909,284</u> | <u>\$ 6,013,478</u> | <u>\$ 2,585,253</u>   |
| <b>Capital Assets Subject to Depreciation</b>                            |                      |                     |                     |                       |
| Buildings                                                                | \$ 11,658,165        | \$ 4,437,158        | \$                  | \$ 16,095,323         |
| Vehicles and Equipment                                                   | <u>7,958,191</u>     | <u>383,882</u>      | <u></u>             | <u>8,342,073</u>      |
| <b>Total Capital Assets Subject to Depreciation</b>                      | <u>\$ 19,616,356</u> | <u>\$ 4,821,040</u> | <u>\$ - 0 -</u>     | <u>\$ 24,437,396</u>  |
| <b>Accumulated Depreciation</b>                                          |                      |                     |                     |                       |
| Buildings                                                                | \$ 3,371,713         | \$ 505,005          | \$                  | \$ 3,876,718          |
| Vehicles and Equipment                                                   | <u>4,421,761</u>     | <u>589,183</u>      | <u></u>             | <u>5,010,944</u>      |
| <b>Total Accumulated Depreciation</b>                                    | <u>\$ 7,793,474</u>  | <u>\$ 1,094,188</u> | <u>\$ - 0 -</u>     | <u>\$ 8,887,662</u>   |
| <b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b> | <u>\$ 11,822,882</u> | <u>\$ 3,726,852</u> | <u>\$ - 0 -</u>     | <u>\$ 15,549,734</u>  |
| <b>Total Capital Assets, Net of Accumulated Depreciation</b>             | <u>\$ 17,512,329</u> | <u>\$ 6,636,136</u> | <u>\$ 6,013,478</u> | <u>\$ 18,134,987</u>  |

**NOTE 6. LEASES PAYABLE**

Equipment Lease

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 lease bears interest at 2.11% per annum. Assets under the lease total \$742,751 at September 30, 2025. Accumulated amortization through September 30, 2025, totaled \$297,101. The District makes semi-annual payments of \$49,059 plus interest with the last payment due on August 1, 2025. During the current year, this lease was paid in full.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 6. LEASES PAYABLE**

Land Lease

In a prior year, the District entered into a lease agreement with Montgomery County Municipal Utility District No. 18 (the “MUD No. 18”), related to land upon which the District constructed a fire station. The land was leased at \$1 per year for as long as the property was used as a fire station. Also in a prior year, the District constructed a new station at a different location and moved its operation from this location. This station is now used as a storage facility and other department operations. On March 15, 2022, the District entered into a new agreement related to the change of use. The District will pay MUD No. 18 \$750 per month beginning March 15, 2022. The rent will increase by five percent with the first increase applicable to rent due April 1, 2023. The term of the lease is five years. At the termination of the lease agreement the District will tear down the structure to the concrete at the District’s sole cost and expense.

In accordance with the requirements of GASB Statement No. 87, which was implemented in a prior year, the District reclassified the leases related to land and capital assets above to right-of-use asset. Right-of-use assets, current year amortization expense, and accumulated amortization is summarized below:

|                                                                               | October 1,<br>2024 | Increases   | Decreases | September 30,<br>2025 |
|-------------------------------------------------------------------------------|--------------------|-------------|-----------|-----------------------|
| <b>Right-of-use Assets Not Being Amortized</b>                                |                    |             |           |                       |
| Land and Land Improvements                                                    | \$ 41,730          | \$ - 0 -    | \$ - 0 -  | \$ 41,730             |
| <b>Right-of-use Assets Subject to Amortization</b>                            |                    |             |           |                       |
| Vehicles and Equipment                                                        | \$ 742,752         | \$ - 0 -    | \$ - 0 -  | \$ 742,752            |
| <b>Less Accumulated Amortization</b>                                          |                    |             |           |                       |
| Vehicles and Equipment                                                        | \$ 346,618         | \$ 49,517   | \$ - 0 -  | \$ 396,135            |
| <b>Total Amortizable Right-of-use Assets, Net of Accumulated Amortization</b> | \$ 396,134         | \$ (49,517) | \$ - 0 -  | \$ 346,617            |
| <b>Total Right-of-use Assets, Net of Accumulated Amortization</b>             | \$ 437,864         | \$ (49,517) | \$ - 0 -  | \$ 388,347            |

The following is a summary of transactions regarding lease payable for the year ended September 30, 2025:

|                                    |                  |
|------------------------------------|------------------|
| Leases Payable, October 1, 2024    | \$ 118,764       |
| Less: Leases Payments              | <u>105,796</u>   |
| Leases Payable, September 30, 2025 | <u>\$ 12,968</u> |

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 6. LEASES PAYABLE (Continued)**

|                                    |                  |
|------------------------------------|------------------|
| Leases Payable:                    |                  |
| Due Within One Year                | \$ 10,258        |
| Due After One Year                 | <u>2,710</u>     |
| Leases Payable, September 30, 2025 | <u>\$ 12,968</u> |

The following is a schedule of future lease payments:

| Fiscal Year | Principal        | Interest      | Total            |
|-------------|------------------|---------------|------------------|
| 2026        | 10,258           | 464           | 10,722           |
| 2027        | <u>2,710</u>     | <u>25</u>     | <u>2,735</u>     |
|             | <u>\$ 12,968</u> | <u>\$ 489</u> | <u>\$ 13,457</u> |

**NOTE 7. LOAN PAYABLE**

On September 25, 2017, the District entered into a \$3,000,000 loan agreement with First Financial Bank, N. A. Proceeds were used to finance the construction of Station 52. The note bears interest at the rate of 2.75% for the first 36-months; for months 37 through maturity the interest rate will be adjusted every 3 years to be equal to the prime rate of interest published by the Wall Street Journal on each September 25 minus 1.25% and be fixed until the next reset date. The interest rate as of reset date of September 25, 2023 was 6.75% resulting in semi-annual payments of \$130,855.13. The next reset date will be September 25, 2026. The last payment is due on September 25, 2038. During the current year, the District refinanced this note.

On September 30, 2020, the District entered into a \$3,750,000 loan agreement with Capital One Public Funding, LLC secured by sales tax revenues. Proceeds were used to finance the construction of Station 55 and related equipment. The note bears interest at the rate of 2.65% per annum. The District will make annual payments of \$306,226 including interest with the last payment due on September 30, 2035.

On June 29, 2022, the District entered into a \$4,200,000 loan agreement with Government Capital Corporation secured by ad valorem tax revenues. Proceeds were used to finance the construction of Station 54 and related equipment. The note bears interest at the rate of 3.142% per annum. The District will make semi-annual payments of \$176,650 including interest with the last payment due on June 29, 2037.

On June 26, 2025, the District entered into a \$2,273,000 loan agreement with Trustmark N.A. Proceeds were used to refinance the First financial Bank, N.A. note. The note bears interest at the rate of 4.13% per annum. The District will make annual payments of \$282,057 including interest with the last payment due on June 26, 2035.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 7. LOAN PAYABLE (Continued)**

On June 26, 2025, the District entered into a \$1,200,000 loan agreement with Trustmark N.A. Proceeds were used to finance the purchase of land. The note bears an interest rate of 4.13% per annum. The District will make annual payments of \$148,908 including interest with the last payment due on June 2035.

The following is a summary of transactions regarding the notes payable for the year ended September 30, 2025:

|                                  |                     |
|----------------------------------|---------------------|
| Loan Payable, October 1, 2024    | \$ 8,467,618        |
| Add: Loan Proceeds               | 3,473,000           |
| Less: Loan Principal Payments    | <u>2,776,172</u>    |
| Loan Payable, September 30, 2025 | <u>\$ 9,164,446</u> |
|                                  |                     |
| Loan Payable:                    |                     |
| Due Within One Year              | \$ 780,876          |
| Due After One Year               | <u>8,383,570</u>    |
| Loan Payable, September 30, 2025 | <u>\$ 9,164,446</u> |

The following is a schedule of future note payments:

| Fiscal Year | Principal           | Interest            | Total                |
|-------------|---------------------|---------------------|----------------------|
| 2026        | 780,876             | 309,615             | 1,090,491            |
| 2027        | 807,089             | 283,401             | 1,090,490            |
| 2028        | 834,215             | 256,276             | 1,090,491            |
| 2029        | 862,283             | 228,208             | 1,090,491            |
| 2030        | 891,327             | 199,164             | 1,090,491            |
| 2031-2035   | 4,308,960           | 531,519             | 4,840,479            |
| 2036-2038   | <u>679,696</u>      | <u>26,903</u>       | <u>706,599</u>       |
|             | <u>\$ 9,164,446</u> | <u>\$ 1,835,086</u> | <u>\$ 10,999,532</u> |

**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 Risk Services – Leavitt Insurance Agencies (“Risk Services”) 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 Risk Services. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**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 \$487,349 and employees contributed \$486,749.

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 \$633,647, and employees contributed \$723,488.

**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.

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 \$1,064,835 for accrued compensation absences. The increase in the current year was \$177,499 for a balance at September 30, 2025 of \$1,242,334.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**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 \$7,805,252 in sales tax revenue with \$1,242,992 recorded as a receivable at year-end.

**NOTE 12. LEASE RECEIVABLE**

The District, as the lessor, has entered into various housing agreements with entities which is required to be recorded in the financial statements in accordance with GASB Statement No. 87 standard. Details of the agreements are outlined below.

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 was 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 \$24,000 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 \$30,000 in rental payments.

On May 1, 2020, the District entered into a Housing Agreement with Montgomery County Hospital District (“MCHD”). Upon completion of the construction of a fire station located at 18294 FM 1097, 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 \$1,500, for its use of these facilities. In addition, a one-time capital contribution of \$250,000 will be contributed toward the construction of this station. MCHD shall pay fifty percent (50%) of the contribution payment in a single installment as of the effective date of this agreement. The remainder was paid at the time of final completion of the station. The agreement is for twenty years unless terminated as provided for in the agreement.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2025**

**NOTE 12. LEASE RECEIVABLE (Continued)**

The changes in lease receivable during the current fiscal year are summarized in the following table:

|                                      |                          |
|--------------------------------------|--------------------------|
| Lease Receivable, October 1, 2024    | \$ 608,357               |
| Less: Lease Principal Received       | <u>28,905</u>            |
| Lease Receivable, September 30, 2025 | <u><u>\$ 579,452</u></u> |

Future payments to be received by the District under the terms of the lease are summarized in the following table:

| Fiscal Year | Principal         | Interest          | Total             |
|-------------|-------------------|-------------------|-------------------|
| 2026        | \$ 30,161         | \$ 23,839         | \$ 54,000         |
| 2027        | 31,474            | 22,526            | 54,000            |
| 2028        | 32,845            | 21,155            | 54,000            |
| 2029        | 34,279            | 19,721            | 54,000            |
| 2030        | 35,776            | 18,224            | 54,000            |
| 2031-2035   | 203,829           | 66,171            | 270,000           |
| 2036-2040   | 190,508           | 19,492            | 210,000           |
| 2041-2042   | <u>20,580</u>     | <u>420</u>        | <u>21,000</u>     |
|             | <u>\$ 579,452</u> | <u>\$ 191,548</u> | <u>\$ 771,000</u> |

Deferred inflows of resources related to lease revenues was \$584,292 as of the beginning of the current fiscal year. The District recognized a decrease in deferred revenue of \$36,273 which resulted in a year-end balance for deferred inflows of resources of \$548,019. During the current year the District recognized lease revenue of \$28,905.

**NOTE 13. TIFMAS REIMBURSEMENT**

During the current year, the district received reimbursements totaling \$260,936 from the Texas Department of Emergency Management's Texas Intrastate Fire Mutual Aid System ("TIFMAS"). The reimbursements are for payroll, lodging, and other costs of District participation in disaster or other events during fiscal year ending September 30, 2023, September 30, 2024 and September 30, 2025. Events reimbursed were related to weather events in 2023, severe weather and wildfire season in 2024 and 2025.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2025**

**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, 2025**

|                                                                       | Original<br>& Final<br>Budget | Actual                      | Variance<br>Positive<br>(Negative) |
|-----------------------------------------------------------------------|-------------------------------|-----------------------------|------------------------------------|
| <b>REVENUES</b>                                                       |                               |                             |                                    |
| Property Taxes                                                        | \$ 6,661,700                  | \$ 6,420,607                | \$ (241,093)                       |
| Sales Tax Revenues                                                    | 6,325,000                     | 7,805,252                   | 1,480,252                          |
| TIFMAS Reimbursement                                                  |                               | 260,936                     | 260,936                            |
| Lease Revenues                                                        | 54,000                        | 54,000                      |                                    |
| Miscellaneous Revenues                                                | 385,300                       | 721,385                     | 336,085                            |
| <b>TOTAL REVENUES</b>                                                 | <u>\$ 13,426,000</u>          | <u>\$ 15,262,180</u>        | <u>\$ 1,836,180</u>                |
| <b>EXPENDITURES</b>                                                   |                               |                             |                                    |
| Services Operations:                                                  |                               |                             |                                    |
| Operations, Maintenance and Administrative                            | \$ 11,841,025                 | \$ 11,272,270               | \$ 568,755                         |
| Commissioner Fees of Office                                           | 20,000                        | 13,650                      | 6,350                              |
| Capital Outlay                                                        | 611,316                       | 524,408                     | 86,908                             |
| Debt Service:                                                         |                               |                             |                                    |
| Principal                                                             | 674,928                       | 395,767                     | 279,161                            |
| Interest                                                              | 278,731                       | 149,585                     | 129,146                            |
| <b>TOTAL EXPENDITURES</b>                                             | <u>\$ 13,426,000</u>          | <u>\$ 12,355,680</u>        | <u>\$ 1,070,320</u>                |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER<br/>EXPENDITURES/EXPENSES</b> | <u>\$ -0-</u>                 | <u>\$ 2,906,500</u>         | <u>\$ 765,860</u>                  |
| <b>OTHER FINANCING SOURCES(USES)</b>                                  |                               |                             |                                    |
| Loan Proceeds                                                         | \$                            | \$ 3,473,000                | \$ 3,473,000                       |
| Refinanced Loan Payoff                                                |                               | (2,272,622)                 | (2,272,622)                        |
| Capital Outlay-Paid for with Loan Proceeds                            |                               | (1,192,438)                 | (1,192,438)                        |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                           | <u>\$ -0-</u>                 | <u>\$ 7,940</u>             | <u>\$ 7,940</u>                    |
| <b>NET CHANGE IN FUND BALANCE</b>                                     | \$ -0-                        | \$ 2,914,440                | \$ 2,914,440                       |
| <b>FUND BALANCE - OCTOBER 1, 2024</b>                                 | <u>16,474,973</u>             | <u>16,474,973</u>           |                                    |
| <b>FUND BALANCE - SEPTEMBER 30, 2025</b>                              | <u><u>\$ 16,474,973</u></u>   | <u><u>\$ 19,389,413</u></u> | <u><u>\$ 2,914,440</u></u>         |

See accompanying independent auditor's report.