

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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CPAs | ADVISORS

CLIENT **FOCUSED.** RELATIONSHIP **DRIVEN.**

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

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December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and the general fund of **Fort Bend County Emergency Services District No. 2**, Fort Bend County, Texas, (the "District") as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the general fund of the District as of December 31, 2020, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and budgetary comparison schedule, schedule of changes in net pension liability and related ratios, and schedule of employer contributions on pages 32 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ABIP, PC

Houston, Texas

June 25, 2021

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2020

This section of the Fort Bend County Emergency Services District No. 2's (the "District") annual financial report presents management's discussion and analysis of the District's financial performance during the year ended December 31, 2020. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities by \$33,878,024 (net position) for the fiscal year reported. This is an overall increase of \$1,919,335 from December 31, 2019.
- Expenses for the year ended December 31, 2020 were \$5,341,751. Revenues exceeded expenses (including depreciation) by \$1,919,335. Included in expenses is \$603,798 in depreciation.
- The general fund reported a fund balance of \$18,680,734. This is an increase of \$747,175 in comparison to the prior year December 31, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District was created as a political subdivision of the state of Texas in June 2002 under Chapter 775 of the Health and Safety Code. The District levies a 10.0 cent per \$100 property valuation tax. The District's Annual Financial Report consists of a series of financial statements and accompanying notes, with the primary focus being on the District as a whole. The statement of net position and the statement of activities are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The fund financial statements report the District's operations in more detail by providing information as to how services are financed in the short-term, as well as the remaining available resources for future spending.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities – Emergency services operating activities are reported in these statements.

The statement of net position and the statement of activities present a view of the District's financial operations as a whole, reflect all financial transactions, and provide information helpful in determining whether the District's financial health or position has improved or deteriorated as a result of the current year's activities. Both of these statements are prepared using the full accrual basis of accounting similar to that used by most private-sector companies. The statement of net position includes all assets and liabilities, both short and long-term as well as deferred outflows and inflows of resources. The statement of activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The two government-wide statements report the District's net position, which represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Over time, the increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating.

Additionally, the District's financial operating results are determined by the difference between the revenues and expenses. To assess the overall financial health of the District, consideration should be given to additional non-financial factors such as changes in the District's tax base.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2020

FUND FINANCIAL STATEMENTS

The fund financial statements are designed to report information by grouping related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives.

Governmental Funds - The accounting for the District's services are included in the governmental funds. The measurement focus and basis of accounting used for reporting continues to be the modified accrual basis which measures inflows and outflows of current financial resources and the remaining balances at year-end that are available for spending. Furthermore, under this basis of accounting, changes in net spendable assets are normally recognized only to the extent that they are expected to have a near-term impact, while inflows are recognized only if they are available to liquidate liabilities of the current period. Similarly, future outflows are typically recognized only if they represent a depletion of current financial resources. The differences in the amounts reported between the fund statements and the government-wide statements are explained in the reconciliations provided on pages 12 and 14.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide disclosures and additional information that are essential to a full understanding of the financial information presented in the government-wide and fund financial statements. The notes to the financial statements are provided starting on page 15.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information beginning on page 32.

Financial analysis of the District as a whole

The District had an unrestricted net position of \$33,878,204 at December 31, 2020. This is a \$1,919,335 increase over last year's unrestricted net position of \$31,958,869. Budgeted contingency of \$1.9 million was not utilized during 2020. As a result, general revenues exceeded governmental activities by approximately \$1.9 million.

In accordance with GASB Statement No. 34, comparative analysis of government-wide information from prior year to current year is presented.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2020

Statement of Net Position

A schedule of the District’s net position is summarized as follows:

	Governmental Activities	
	2020	2019
<u>ASSETS</u>		
ASSETS:		
Current assets	\$ 22,150,765	\$ 21,017,112
Capital assets, net	<u>11,596,805</u>	<u>11,761,620</u>
Total assets	<u>33,747,570</u>	<u>32,778,732</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>298,432</u>	<u>343,242</u>
LIABILITIES:		
Current liabilities	\$ 164,956	\$ 272,979
Non-current liabilities	<u>-</u>	<u>886,968</u>
Total liabilities	<u>164,956</u>	<u>1,159,947</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,842</u>	<u>3,158</u>
NET POSITION:		
Net investment in capital assets	11,596,805	11,528,442
Unrestricted net position	<u>22,349,762</u>	<u>20,430,427</u>
Total net position	<u>\$ 33,946,567</u>	<u>\$ 31,958,869</u>

Statement of Activities

The District’s total revenues were \$7,261,086 in 2020. In 2020, 98% of the total revenue came from ad valorem property taxes, 95% and 2% of revenue came from interest earnings.

For the year ended December 31, 2020, the total expenses were \$5,341,751 including \$603,798 of depreciation expense and \$786,736 of general government expenses.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2020

The following table summarizes the changes in the District’s net position from its activities for the years ended December 31:

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
REVENUES:		
General revenues	\$ 7,261,086	\$ 7,230,196
Total revenues	<u>7,261,086</u>	<u>7,230,196</u>
EXPENSES:		
Public safety	4,552,717	4,291,244
General government	786,736	803,995
Interest on debt	2,298	34,820
Total expenses	<u>5,341,751</u>	<u>5,130,059</u>
Change in net position	1,919,335	2,100,137
NET POSITION - BEGINNING OF YEAR	<u>31,958,869</u>	<u>29,858,732</u>
NET POSITION - END OF YEAR	<u>\$ 33,878,204</u>	<u>\$ 31,958,869</u>

Capital assets and debt administration

Capital Assets

Net investment in capital assets was \$11,596,805 at December 31, 2020. Capital assets include land, buildings and improvements, vehicles, and firefighting equipment. The significant additions for the year were the air conditioning replacement and mechanical modifications at station #3 and operational equipment for the firefighters. The following table shows capital assets for 2020 with comparison for 2019.

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 1,082,550	\$ 1,082,550
Building and improvements	9,526,790	9,526,790
Emergency services equipment	5,800,345	5,361,362
Station furniture and equipment	545,901	545,901
Total capital assets	<u>16,955,586</u>	<u>16,516,603</u>
Accumulated depreciation	<u>(5,358,781)</u>	<u>(4,754,983)</u>
Capital assets, net	<u>\$ 11,596,805</u>	<u>\$ 11,761,620</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2020

Long-Term Debt

At the end of 2020, the District had paid the notes payable in full. The following table shows the District’s long-term debt for 2020 with comparison for 2019.

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
Notes payable	\$ -	\$ 1,072,586
Total debt	<u>\$ -</u>	<u>\$ 1,072,586</u>

More detailed information is provided on the District’s capital assets and debt activity in notes 5, 6 and 7 to the financial statements beginning on page 23.

Economic factors and next year’s budgets and rates

The ad valorem property tax rate is \$0.100 per \$100 property valuation which was not changed from the prior year. The District expects increased revenues for the 2021 year due to an increase in certified property valuations and taxes related to new construction.

BUDGETARY HIGHLIGHTS

Actual revenues for the general fund in 2020 were higher than budgeted amounts by \$133,694. Expenditures were under budget in 2020 by \$616,387 primarily due to budgeting for contingencies which show no offsetting expenditures.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers, patrons and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Beth Robinson, Finance Manager, at 281-395-0011, ext. 121, or at 24655 Westheimer Parkway, Katy Texas 77494.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2020

CURRENT ASSETS:

Cash	\$ 459,689
Certificates of deposit	983,569
Short-term investments	14,645,100
Taxes receivable	3,256,954
Due from tax assessor/collector	2,730,243
Prepays and other current assets	<u>27,089</u>
Total current assets	<u>22,102,644</u>

NON-CURRENT ASSETS:

Net pension asset	48,121
Capital assets:	
Buildings and improvements	9,526,790
Emergency service equipment	5,800,345
Station furniture and equipment	545,901
Land	<u>1,082,550</u>
	16,955,586
Less accumulated depreciation	<u>(5,358,781)</u>
Capital assets, net	<u>11,596,805</u>
Total non-current assets	<u>11,644,926</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflows related to pension activities	<u>308,247</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 34,055,817</u></u>
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The accompanying notes to the basic financial statements are an integral part of these statements.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2020

CURRENT LIABILITIES:

Accounts payable \$ 164,956

DEFERRED INFLOWS OF RESOURCES:

Deferred inflows related to pension activities 12,657

Total liabilities and deferred inflows of resources 177,613

NET POSITION:

Investments in capital assets 11,596,805

Unrestricted net position 22,281,399

Total net position 33,878,204

**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION**

\$ 34,055,817

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

FUNCTIONS/PROGRAMS:	<u>Expenses</u>	<u>Contributions</u>	<u>Net (Expense) Revenue</u>
Primary government:			
Governmental activities:			
Public safety - emergency services	\$ 4,552,717	\$ -	\$ (4,552,717)
General government	786,736	-	(786,736)
Interest on long-term debt	<u>2,298</u>	<u>-</u>	<u>(2,298)</u>
Total government activities	<u>\$ 5,341,751</u>	<u>\$ -</u>	<u>\$ (5,341,751)</u>
 GENERAL REVENUES:			
Property taxes			7,059,943
Penalties and interest			20,576
Interest income			156,137
Miscellaneous			23,430
False alarm fees			<u>1,000</u>
Total general revenues			<u>7,261,086</u>
 CHANGE IN NET POSITION			1,919,335
 NET POSITION - beginning of year			<u>31,958,869</u>
 NET POSITION - end of year			<u>\$ 33,878,204</u>

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

BALANCE SHEET – GENERAL FUND

December 31, 2020

ASSETS

ASSETS:

Cash	\$ 459,689
Certificates of deposit	983,569
Short-term investments	14,645,100
Taxes receivable	3,256,954
Due from tax assessor/collector	2,730,243
Prepays and other current assets	27,089

TOTAL ASSETS \$ 22,102,644

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable	\$ 164,956
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DEFERRED INFLOW OF RESOURCES:

Uncollected property taxes	3,256,954
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FUND BALANCE

Nonspendable:	
Prepaid expenses	27,089
Committed:	
Capital asset replacement	7,700,000
Emergency operations	5,400,000
Fire station 1 upgrade or repair	1,700,000
2021 Tax revenue collected in 2020	1,400,000
Unassigned	2,453,645
Total fund balance	18,680,734

TOTAL LIABILITIES AND FUND BALANCE \$ 22,102,644

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**RECONCILIATION OF THE GENERAL BALANCE SHEET TO THE
STATEMENT OF NET POSITION**

December 31, 2020

TOTAL GENERAL FUND BALANCE	\$ 18,680,734
Capital assets used in governmental activities are not financial resources, and therefore are not recorded in the governmental fund financial statements.	16,955,586
Accumulated depreciation has not been included in the governmental fund financial statements.	(5,358,781)
Deferred revenues are recorded in the funds, but are not deferred under the measurement focus employed in the statement of net position.	3,256,954
Net pension liabilities and related deferred outflows do not represent assets in the current period and are not recognized in the governmental fund financial statements.	<u>343,711</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 33,878,204</u></u>

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GENERAL FUND**

For the Year Ended December 31, 2020

REVENUES:

Property taxes	\$ 7,010,079
Penalties and interest	20,576
Interest income	156,137
Miscellaneous	24,430
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Total revenues	7,211,222
	<hr/>

EXPENDITURES:

Appraisal district fees	9,009
Commissioners fees and expenses	22,396
Consumables	57,466
Fire station note loan interest	26,435
Fire station note principal	1,072,586
Fuel	21,378
Insurance	147,155
Legal and professional fees	84,914
Office expenses	81,336
Pension expense	190,388
Purchase of capital assets, net	438,983
Repairs and maintenance	516,904
Tax collector fees	46,066
Telephone and communications	56,124
Travel and meals	4,596
Utilities	58,629
Wages and payroll taxes - administration	91,566
Wages and payroll taxes - firefighters	3,538,116
	<hr/>
Total expenditures	6,464,047
	<hr/>

Excess of revenues over expenditures/net change in fund balance 747,175

FUND BALANCE - beginning of year 17,933,559

FUND BALANCE - end of year \$ 18,680,734

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2020

NET CHANGE IN GENERAL FUND BALANCE	\$ 747,175
Government funds report capital outlays as expenditures, whereas those costs are shown as increases in capital assets in the statement of activities.	438,983
Government funds report debt payments as expenditures, whereas those payments are shown as a decrease in liabilities in the statement of activities.	1,072,586
Depreciation is not recognized as an expense in the government fund since it does not require the use of current financial resources.	(603,798)
Pension expense derived from net pension liability is not recognized as an expense in the government fund since it does not require the use of current financial resources.	190,388
Deferred revenues are recorded in the funds, but are not deferred under the measurement focus employed in the statement of net position.	49,864
Interest expense is accrued on outstanding debt in the statement of net assets, whereas in the governmental fund financial statements, an interest expenditure is reported when due.	<u>24,137</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,919,335</u></u>

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(1) Creation of District and summary of significant accounting policies

Creation of District

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

Financial reporting entity

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

Government-wide and fund financial statements

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

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

Measurement focus, basis of accounting and financial statement presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (“GAAP”). GAAP includes all relevant Governmental Accounting Standards Board (“GASB”) pronouncements. The accounting and reporting framework and the more significant policies are discussed in subsequent sections of note 1.

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

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

Fund accounting

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(1) Creation of District and summary of significant accounting policies (continued)

Revenues – exchange and non-exchange transactions

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

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

Expenses/expenditures

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

Net position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or the improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by external restrictions by creditors, grantors, laws, or regulations of other governmental bodies. The District has committed through the budgeting process \$7,700,000 for capital asset replacement, \$5,400,000 for emergency operations, \$1,700,000 related to the future upgrades and repairs to station 1 and \$1,400,000 for 2021 tax revenue collected in 2020. There is a deed restriction on the new fire station property that limited the use of the property to the construction of a fire station only. The District has no other restrictions on its net position.

Estimates

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

Budgets and budgetary accounting

The Board of Commissioners adopts an annual non-appropriated budget for the General Fund in accordance with the accounting principles applicable to that fund. The District's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ended December 31, 2020. The District does not use encumbrances or appropriations.

Capital assets

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(1) Creation of District and summary of significant accounting policies (continued)

Deferred revenues

The District reports unearned deferred revenues in the governmental fund balance sheet. Deferred and unearned revenue arises when potential revenue does not meet the measurable and available criterion for recognition in the current period. Property taxes available for the 2020 fiscal year include the 2019 property tax roll levy and tax collections from all prior levies. Uncollected property taxes from the 2020 and prior year property tax roll levies have been fully deferred in the government funds.

Fund balance classification

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

Non-spendable

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

Restricted

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

Committed

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

Assigned

This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Commissioners through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District did not have any assigned resources as of December 31, 2020.

Unassigned

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(1) Creation of District and summary of significant accounting policies (continued)

Pensions

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

Deferred outflows/inflows of resources

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

Deferred outflows of resources for pension items reported in the government-wide financial statement of net position

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

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

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

Subsequent events

The District evaluated all events or transactions that occurred after December 31, 2020, and through June 25, 2021, the date the financial statements were available to be issued. No events have occurred that would have a material effect on the financial statements.

(2) Tax levy

During the year ended December 31, 2020, the District levied an ad valorem tax at the rate of \$0.010 per \$100 of assessed valuation for the 2020 tax year. This resulted in a tax levy of \$7,276,476 on the adjusted taxable valuation of \$7,276,476,000 for the 2020 tax year.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(2) Tax levy (continued)

The District's tax calendar is as follows:

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

(3) Risk management

The District covers various risks of loss in the event it incurs tort claims including theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts from the date of inception on June 4, 2002 through December 31, 2020.

(4) Cash and temporary investments

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

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(4) Cash and temporary investments (continued)

Texas statutes require that any cash balance in any fund shall to the extent not insured by the Federal Depository Insurance Corporation ("FDIC") or its successor be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. As of December 31, 2020, the District held cash in one financial institution in two demand deposit accounts totaling \$513,100 and \$983,569 in four other financial institutions in certificate of deposits all with a holding period of twenty-four months or less. All of the funds in these financial institutions were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the District held \$14,645,100 of short-term investments with two investment companies. The first is through the Texas Treasury under a designated Texas Local Government Investment Pool ("TexPool") account, with a balance of \$15,959 as of December 31, 2020. The second is with Texas Cooperative Liquid Assets Securities Systems ("Texas CLASS"), a local government investment pool trust, which invests only in securities allowed by the Texas Public Funds Investment Act. The balance with Texas Class as of December 31, 2020 was \$14,629,141.

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State of Texas Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool.

Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian and the Program Administrator. The Board administers the affairs of the Trust and enters into contracts and agreements on behalf of the Trust in order to effectuate the terms of the Trust Agreement. It also selects the consultants for Texas CLASS, including the Program Administrator and the Custodian.

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FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(4) Cash and temporary investments (continued)

	Balance 12/31/2020	Maturity
Cash:		
Cash on hand	\$ 234	N/A
Cash in bank	459,455	N/A
	<u>459,689</u>	
Certificates of deposit:		
Southwest National Bank	248,569	2/12/2021
Plains State Bank	245,000	10/2/2021
Prosperity Bank	245,000	11/13/2022
Texas Gulf Bank	245,000	12/21/2022
	<u>983,569</u>	
Short-term investments:		
TexPool	15,959	2/7/2021
Texas CLASS	14,629,141	2/1/2021
	<u>14,645,100</u>	
	<u>\$ 16,088,358</u>	

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its certificates of deposit and short-term investments to less than 24 months.

Credit risk. Deposits with the investment pools are recorded at amortized cost or fair value per share of the pool's underlying investments, as applicable. The investment pools have as one of their objectives the maintenance of a stable net asset value of \$1.00. The District's investment policy required that the net asset value of the polls also be \$1.00 and be rated no lower than "AAA" or "AAA-m" or no lower than investment grade with a weighted average maturity no greater than 90 days. As of December 31, 2020, the ratings of the various investment pools were:

Pool	Rating	Rating Agency
TexPool	AAA-m	Standard & Poor's
Texas CLASS	AAA-m	Standard & Poor's

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(4) Cash and temporary investments (continued)

Concentration of credit risk. The District is required to disclose investments in any one issuer that represent 5 percent or more of total investments. However, investments issued or explicitly guaranteed by the United States government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. The District’s investment policy does not specifically address the concentration of credit risk, as this is accomplished through diversity of its holdings. The District had no investments at year end that exceeded 5 percent of total investments.

Custodial credit risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investments are not exposed to custodial credit risk as of December 31, 2020 as they are held by financial institutions in the name of the District.

GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation input used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs which include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; or other observable inputs such as interest rates and yield curves at commonly quoted intervals, implied volatilities, and credit spreads; or market-corroborated inputs.
- Level 3 inputs are significant unobservable inputs.

The carrying amounts of investments at amortized cost and net asset value (“NAV”) is shown in the following table:

Investments measured at amortized cost:	
Certificates of deposit	\$ 983,689
External investment pools:	
TexPool	<u>15,959</u>
Total external investment pools	<u>999,648</u>
Investments measured at NAV:	
External investment pools:	
Texas CLASS	<u>14,629,141</u>
Total	<u>\$ 15,628,789</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(4) Cash and temporary investments (continued)

The valuation method for investments measured at NAV per share (or its equivalent) is presented on the following table:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Investments measured at NAV:				
Texas CLASS	<u>\$ 14,629,141</u>	N/A	Daily	N/A

Texas CLASS is a local government investment pool specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAA-m by Standard and Poor's and maintains a maturity of 60 days or less. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools. The portfolio may include U.S. Treasuries, agencies, state and local government obligations, collateralized certificates of deposit, repurchase agreements (REPOs), and highly rated commercial paper. The fair value of the investments in this type have been determined using the NAV per share of the investments.

(5) Capital assets

Capital asset activity for the District for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Reclass and Additions</u>	<u>Reclass and Disposals</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,082,550	\$ -	\$ -	\$ 1,082,550
Capital assets, being depreciated:				
Buildings and improvements	9,526,790	-	-	9,526,790
Emergency service equipment	5,361,362	438,983	-	5,800,345
Station furniture and equipment	545,901	-	-	545,901
Total capital assets, being depreciated	<u>15,434,053</u>	<u>438,983</u>	<u>-</u>	<u>15,873,036</u>
Less accumulated depreciation:				
Buildings and improvements	(1,344,141)	(240,601)	-	(1,584,742)
Emergency service equipment	(3,051,877)	(318,228)	-	(3,370,105)
Station furniture and equipment	(358,965)	(44,969)	-	(403,934)
Total accumulated depreciation	<u>(4,754,983)</u>	<u>(603,798)</u>	<u>-</u>	<u>(5,358,781)</u>
Total capital assets, being depreciated - net	<u>20,189,036</u>	<u>1,042,781</u>	<u>-</u>	<u>21,231,817</u>
Total capital assets - net	<u>\$ 11,761,620</u>	<u>\$ (164,815)</u>	<u>\$ -</u>	<u>\$ 11,596,805</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(5) Capital assets (continued)

Depreciation was charged to the function of public safety totaling \$603,798.

(6) Long-term liabilities

Long-term liability activity for the District for the year ended December 31, 2020 was as follows:

	Beginning	Increase (Decrease)	Ending
Note payable - Trustmark National Bank	\$ 1,072,586	\$ (1,072,586)	\$ -

(7) Notes payable

The District financed the construction of station #2 with Trustmark National Bank through the execution of a construction loan dated March 22, 2012. The loan amount was for the lesser of 80% of the “as completed” appraised value of the project or \$3,500,000 bearing interest at 2.89% per annum. The construction loan converted to a standard note payable on July 1, 2013, with annual payments of \$103,192 beginning March 22, 2014 through March 22, 2022, at which time the remaining balance would have been due in full.

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

(8) Employee retirement system

Plan description

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

Benefits provided

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(8) Employee retirement system (continued)

Benefits provided (continued)

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

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

Employee covered by benefit terms

As of December 31, 2019, the following employees were covered by the benefit terms:

Active employees	74
Number of inactive employees entitled to, but not yet receiving benefits	<u>18</u>
	<u><u>92</u></u>

Contributions

The employer has elected the annually determined contribution rate ("ADCR") plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually and was 6.12% for year ended December 31, 2019. The contribution rate payable by the employee members is 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

The District's total payroll in fiscal year 2019 was \$3,032,936, with District's contributions based on payroll of \$3,013,153. Employee contributions totaled \$210,921 during the year ended December 31, 2019. The District made actual cash contributions of \$184,112 to the plan during the year ended December 31, 2019.

The District's total payroll in fiscal year 2020 was \$3,157,391, with District's contributions based on payroll of \$3,136,545. Employee contributions totaled \$219,558 during the year ended December 31, 2020. The District made actual cash contributions of \$190,388 to the plan during the year ended December 31, 2020.

Net pension liability

The District's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(8) Employee retirement system (continued)

Actuarial assumptions

The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.90%
Investment rate of return	8.0%
Mortality:	
Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Mortality Table for males and 115% of the RP-2014 Disabled Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale of 2014.

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

Discount rate

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

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in the period, and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investment.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(8) Employee retirement system (continued)

Discount rate (continued)

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

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

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

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

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

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(8) Employee retirement system (continued)

Long-term expected rate of return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on April 2020 information for a 10-year time horizon.

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

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
U.S. Equities	Dow Jones U.S. total Stock Market Index	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	20.00%	8.20%
Global Equities	MSCI World (net) Index	2.50%	5.50%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	7.00%	5.20%
Int'l Equities - Emerging Markets	MSCI EM Emerging Mrkets (net) Index	7.00%	5.70%
Investment - Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.20%
Strategic Credit	FTSE High - Yield Cash - Pay Capped Index	12.00%	3.14%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	6.90%
REIT Equities	67% FTSE NAREIT All Equity REIT's Index + 33% S&P Global REIT (net) Index	3.00%	4.50%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.50%
Hedge Funds	Hedge Fund Research, Inc. ("HFRI") Fund of Funds Composite Index	8.00%	2.30%

⁽¹⁾ Target asset allocation adopted at the June 2020 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal to expected return minus assumed inflation rate of 1.80%, per Cliffwater's 2020 capital market assumptions.

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

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

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(8) Employee retirement system (continued)

Changes in the net pension liability

	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance as of December 31, 2018	\$ 939,405	\$ 915,625	\$ 23,780
Changes for the year:			
Service cost	357,360	-	357,360
Interest on total pension liability	104,805	-	104,805
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	23,345	-	23,345
Effect of assumptions changes or inputs	-	-	-
Refunds of contributions	(5,865)	(5,865)	-
Benefit payments	-	-	-
Administrative expenses	-	(1,118)	1,118
Member contributions	-	210,921	(210,921)
Net investment income	-	149,968	(149,968)
Employer contributions	-	184,112	(184,112)
Other	-	13,528	(13,528)
Balance as of December 31, 2019	<u>\$ 1,419,050</u>	<u>\$ 1,467,171</u>	<u>\$ (48,121)</u>

Sensitivity analysis

The following presents the net pension liability of the employer, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1.0% point lower (7.10%) or 1.0% point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 1,655,687	\$ 1,419,050	\$ 1,221,546
Fiduciary net position	1,467,171	1,467,171	1,467,171
Net pension liability (asset)	<u>\$ 188,516</u>	<u>\$ (48,121)</u>	<u>\$ (245,625)</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(8) Employee retirement system (continued)

Deferred inflows/outflows of resources

As of December 31, 2019, the deferred inflows and outflows of resources are as follows:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 117,909
Changes of assumptions	2,842	-
Net difference between projected and actual earnings	9,815	-
Contributions made subsequent to measurement date	-	190,338
Total	<u>\$ 12,657</u>	<u>\$ 308,247</u>

The District reported \$190,338 as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability for the year ended December 31, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	
2020	\$ 14,208
2021	12,315
2022	14,076
2023	842
2024	12,814
Thereafter	<u>50,997</u>
	<u>\$ 105,252</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2020

(8) Employee retirement system (continued)

Pension expense

For the year ended December 31, 2020, the District recognized pension expense of \$162,930 as follows:

Service cost	\$ 357,360
Interest on total pension liability ⁽¹⁾	104,805
Effect on plan changes	-
Administrative expenses	1,118
Member contributions	(210,921)
Expected investment return, net of investment expenses	(90,113)
Recognition of assumption changes or inputs:	
Recognition of economic/demographic gains or losses	13,130
Recognition of assumption changes or inputs	(316)
Recognition of investment gains or losses	1,395
Other ⁽²⁾	<u>(13,528)</u>
Pension expense	<u><u>\$ 162,930</u></u>

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

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

For the year ended December 31, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Property taxes	\$ 6,887,528	\$ 7,010,079	\$ 122,551
Penalties and interest	-	20,576	20,576
Interest income	190,000	156,137	(33,863)
Miscellaneous	-	24,430	24,430
Total revenues	<u>7,077,528</u>	<u>7,211,222</u>	<u>133,694</u>
EXPENDITURES:			
Wages and payroll taxes - firefighters	3,608,117	3,538,116	70,001
Fire station note principal	608,984	1,072,586	(463,602)
Purchase of capital assets - net	157,540	438,983	(281,443)
Repairs and maintenance	504,900	516,904	(12,004)
Pension expense	283,513	190,388	93,125
Insurance	148,825	147,155	1,670
Legal and professional fees	76,000	84,914	(8,914)
Wages and payroll taxes - administration	101,959	91,566	10,393
Consumables	106,300	57,466	48,834
Utilities	57,200	58,629	(1,429)
Tax collector fees	50,500	46,066	4,434
Fire station note interest	31,412	26,435	4,977
Office expenses	124,935	81,336	43,599
Telephone and communications	92,000	56,124	35,876
Fuel	28,000	21,378	6,622
Commissioners fees and expenses	18,000	22,396	(4,396)
Travel and meals	10,000	4,596	5,404
Appraisal district fees	9,400	9,009	391
Contingencies	1,062,849	-	1,062,849
Total expenditures	<u>7,080,434</u>	<u>6,464,047</u>	<u>616,387</u>
Excess of Revenues Over (Under) Expenditures	(2,906)	747,175	750,081
Fund Balance, beginning of year	<u>17,933,559</u>	<u>17,933,559</u>	<u>-</u>
Fund Balance, end of year	<u>\$ 17,930,653</u>	<u>\$ 18,680,734</u>	<u>\$ 750,081</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

Measurement year ended December 31,

Plan Year Ended December 31,	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total Pension Liability:				
Service cost	\$ 357,360	\$ 262,719	\$ 236,956	\$ 220,558
Interest on total pension liability	104,805	63,523	37,711	8,649
Effects of plan changes	-	-	-	-
Effects of assumption changes or inputs	-	-	(3,790)	-
Effects of economic/demographic (gains) or losses	23,345	93,360	24,625	3,067
Benefit payments/refunds of contributions	<u>(5,865)</u>	<u>(3,368)</u>	<u>(1,838)</u>	<u>(2,767)</u>
Net change in total pension liability	479,645	416,234	293,664	229,507
Total pension liability, beginning	<u>939,405</u>	<u>523,171</u>	<u>229,507</u>	<u>-</u>
Total pension liability, ending (a)	<u><u>\$ 1,419,050</u></u>	<u><u>\$ 939,405</u></u>	<u><u>\$ 523,171</u></u>	<u><u>\$ 229,507</u></u>
Fiduciary Net Position:				
Employer contributions	\$ 184,112	\$ 166,383	\$ 141,457	\$ 120,554
Member contributions	210,921	190,307	138,103	117,219
Investment income, net of investment expenses	149,968	(6,466)	39,289	-
Benefit payments/refunds of contributions	(5,865)	(3,369)	(1,838)	(2,767)
Administrative expenses	(1,118)	(736)	(371)	-
Other	<u>13,528</u>	<u>10,583</u>	<u>3,718</u>	<u>3,559</u>
Net change in fiduciary net position	551,546	356,702	320,358	238,565
Fiduciary net position, beginning	<u>915,625</u>	<u>558,923</u>	<u>238,565</u>	<u>-</u>
Fiduciary net position, ending (b)	<u><u>\$ 1,467,171</u></u>	<u><u>\$ 915,625</u></u>	<u><u>\$ 558,923</u></u>	<u><u>\$ 238,565</u></u>
Net pension liability/(asset), ending = (a) - (b)	<u><u>\$ (48,121)</u></u>	<u><u>\$ 23,780</u></u>	<u><u>\$ (35,752)</u></u>	<u><u>\$ (9,058)</u></u>
Fiduciary net position as a % of total pension liability	103.39%	97.47%	106.83%	103.95%
Pension covered payroll	\$ 3,013,153	\$ 2,718,669	\$ 1,972,898	\$ 1,674,554
Net pension liability/(asset) as % of covered payroll	-1.60%	0.87%	-1.81%	-0.54%

NOTE: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of December 31, 2019, only 4 years are included and additional years will be added in the future as the information becomes available.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For the year ended December 31,

<u>Year Ended December 31,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll</u>	<u>Actual Contributions as a % of Covered Payroll</u>
2016	\$ 120,066	\$ 120,554	\$ (488)	\$ 1,674,554	7.20%
2017	141,457	141,457	-	1,972,898	7.17%
2018	166,383	166,383	-	2,718,669	6.12%
2019	184,112	184,112	-	3,013,153	6.11%
2020	190,388	190,388	-	3,136,545	6.07%

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. The District will develop and present the schedule prospectively.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2020

(1) Employee retirement system

The Board of Commissioners adopts an annual non-appropriated budget for the General Fund in accordance with the accounting principles applicable to that fund. The District's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ended December 31, 2020. The District does not use encumbrances or appropriations.

(2) Budgetary basis of accounting

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2020

Valuation Date:	Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.
<u>Methods and assumptions used to determine contributions rates:</u>	
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	17.9 years (based on contribution rate calculated in 12/31/2019 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Health Annuitant Mortality Tables for males and 110% of the RP-2014 Healthy Annuitant Mortality Tables for females, both projected with 110% of the MP-2014 Ultimate Scale after 214.
Changes in Assumptions and Methods	2015: New inflation, mortality and other assumptions were reflected.
Reflected in the Schedule of Employer Contributions*	2017: New mortality assumptions were reflected
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule. 2019: No changes in plan provisions were reflected in the Schedule.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the governmental activities and the major funds of the Fort Bend County Emergency Services District No. 2 (the “District”), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated June 25, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

ABIP, PC

Houston, Texas

June 25, 2021