

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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CPAs | ADVISORS

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

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

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December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2021, 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 the general fund, as of December 31, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

INDEPENDENT AUDITOR’S REPORT
(Continued)

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 and *Government 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 and *Government 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 budgetary comparison schedule, schedule of changes in net pension liability and related ratios, schedule of employer contributions, and the related notes to required supplementary information 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2022, 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 results of that testing, and not to provide an opinion on the effectiveness of the District's internal controls 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

May 27, 2022

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2021

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, 2021. 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 \$35,231,316 (net position) for the fiscal year reported. This is an overall increase of \$1,353,112 from December 31, 2020.
- Expenses for the year ended December 31, 2021 were \$6,671,192. Revenues exceeded expenses (including depreciation) by \$1,353,112. Included in expenses is \$630,350 in depreciation.
- The general fund reported a fund balance of \$17,939,480. This is an decrease of \$741,254 in comparison to the prior year December 31, 2020.

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, 2021

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 33.

Financial analysis of the District as a whole

The District had an unrestricted net position of \$23,396,010 as of December 31, 2021. This is a \$1,046,248 increase over last year's unrestricted net position of \$22,349,762. General revenues exceeded governmental activities by approximately \$1.3 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, 2021

Statement of Net Position

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

	<u>Governmental Activities</u>	
	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
ASSETS:		
Current assets	\$ 23,495,527	\$ 22,150,765
Capital assets, net	<u>11,835,306</u>	<u>11,596,805</u>
Total assets	<u>35,330,833</u>	<u>33,747,570</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>584,503</u>	<u>298,432</u>
LIABILITIES:		
Current liabilities	\$ 289,183	\$ 164,956
Non-current liabilities	<u>367,267</u>	<u>-</u>
Total liabilities	<u>656,450</u>	<u>164,956</u>
DEFERRED INFLOWS OF RESOURCES	<u>27,570</u>	<u>2,842</u>
NET POSITION:		
Net investment in capital assets	11,835,306	11,596,805
Unrestricted net position	<u>23,396,010</u>	<u>22,349,762</u>
Total net position	<u>\$ 35,231,316</u>	<u>\$ 33,946,567</u>

Statement of Activities

The District’s total revenues were \$8,024,304 in 2021. In 2021, 93% of the total revenue came from ad valorem property taxes and 6% of revenue came from interest earnings. In addition, 36% of total revenues came from payments from program revenues such as the interlocal agreements with Harris-Fort bend Counties Municipal Utility Districts No. 1 and No.5 to provide Emergency Medical Services (EMS) operations.

For the year ended December 31, 2021, the total expenses were \$6,671,192 including \$630,350 of depreciation expense and \$841,994 of general government expenses.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2021

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>2021</u>	<u>2020</u>
REVENUES:		
Program revenues	\$ 444,257	\$ -
General revenues	<u>7,580,047</u>	<u>7,261,086</u>
Total revenues	<u>8,024,304</u>	<u>7,261,086</u>
EXPENSES:		
Public safety	5,829,198	4,552,717
General government	841,994	786,736
Interest on debt	<u>-</u>	<u>2,298</u>
Total expenses	<u>6,671,192</u>	<u>5,341,751</u>
Change in net position	1,353,112	1,919,335
NET POSITION - BEGINNING OF YEAR	<u>33,878,204</u>	<u>31,958,869</u>
NET POSITION - END OF YEAR	<u><u>\$ 35,231,316</u></u>	<u><u>\$ 33,878,204</u></u>

Capital Assets

Net investment in capital assets was \$11,835,306 at December 31, 2021. Capital assets include land, buildings and improvements, vehicles, and firefighting equipment. The significant additions for the year were the air conditioning replacement and operational equipment for the firefighters. The following table shows capital assets for 2021 with comparison for 2020.

	<u>Governmental Activities</u>	
	<u>2021</u>	<u>2020</u>
Land	\$ 1,082,550	\$ 1,082,550
Construction in progress	814,218	-
Building and improvements	9,526,790	9,526,790
Emergency services equipment	5,854,978	5,800,345
Station furniture and equipment	<u>545,901</u>	<u>545,901</u>
Total capital assets	17,824,437	16,955,586
Accumulated depreciation	<u>(5,989,131)</u>	<u>(5,358,781)</u>
Capital assets, net	<u><u>\$ 11,835,306</u></u>	<u><u>\$ 11,596,805</u></u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2021

More detailed information is provided on the District's capital assets in notes 4 to the financial statements beginning on page 22.

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 2022 year due to an increase in certified property valuations and taxes related to new construction.

BUDGETARY HIGHLIGHTS

Actual revenues for the general fund in 2021 were less than budgeted amounts by \$1,249,184. Expenditures were exceeded budget in 2021 by \$341,556 primarily due to purchase of tanker equipment not budgeted.

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, 2021

ASSETS:	
Cash	\$ 407,771
Certificates of deposit	1,229,893
Short-term investments	15,364,744
Taxes receivable	5,266,864
Due from tax assessor/collector	1,217,025
Prepays and other assets	9,230
Capital assets, net	<u>11,835,306</u>
Total assets	<u>35,330,833</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred outflows related to pension activities	<u>584,503</u>
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 289,183
Net pension liability	<u>367,267</u>
Total liabilities	656,450
DEFERRED INFLOWS OF RESOURCES:	
Deferred inflows related to pension activities	<u>27,570</u>
NET POSITION:	
Net investment in capital assets	11,835,306
Unrestricted	<u>23,396,010</u>
Total net position	<u>\$ 35,231,316</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 ACTIVITIES

For the Year Ended December 31, 2021

		Program Revenues		Net (Expense)
				Revenue and
				Change in Net
				Position
				Governmental
				Activities
FUNCTIONS/PROGRAMS:	<u>Expenses</u>	<u>Charges for</u>	<u>Contributions</u>	
		<u>Services</u>		
Primary government:				
Governmental activities:				
Public safety - emergency services	\$ 5,829,198	\$ 444,257	\$ -	\$ (5,384,941)
General government	841,994	-	-	(841,994)
Total government activities	<u>\$ 6,671,192</u>	<u>\$ 444,257</u>	<u>\$ -</u>	<u>(6,226,935)</u>
 GENERAL REVENUES:				
Property taxes				7,491,340
Penalties and interest				30,763
Interest income				21,786
Miscellaneous				36,158
Total general revenues				<u>7,580,047</u>
 CHANGE IN NET POSITION				1,353,112
 NET POSITION - beginning of year				<u>33,878,204</u>
 NET POSITION - end of year				<u>\$ 35,231,316</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, 2021

ASSETS

ASSETS:

Cash	\$ 407,771
Certificates of deposit	1,229,893
Short-term investments	15,364,744
Taxes receivable	5,266,864
Due from tax assessor/collector	1,217,025
Prepays and other assets	<u>9,230</u>
TOTAL ASSETS	<u>\$ 23,495,527</u>

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable	<u>\$ 289,183</u>
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DEFERRED INFLOWS OF RESOURCES:

Uncollected property taxes	<u>5,266,864</u>
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FUND BALANCE

Nonspendable:	
Prepaid expenses	9,230
Committed	16,960,000
Unassigned	<u>970,250</u>
Total fund balance	<u>17,939,480</u>

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND FUND BALANCE

\$ 23,495,527

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 FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION**

December 31, 2021

TOTAL GENERAL FUND BALANCE	\$ 17,939,480
Capital assets used in governmental activities are not financial resources, and therefore are not recorded in the governmental fund financial statements.	17,824,437
Accumulated depreciation has not been included in the governmental fund financial statements.	(5,989,131)
Deferred revenues are recorded in the funds, but are not deferred under the measurement focus employed in the statement of net position.	5,266,864
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>189,666</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 35,231,316</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, 2021

REVENUES:

Property taxes	\$ 5,481,430
Penalties and interest	30,763
Charges for services	444,257
Interest income	21,786
Miscellaneous	<u>36,158</u>
Total revenues	<u>6,014,394</u>

EXPENDITURES:

Appraisal district fees	9,211
Commissioners fees and expenses	24,841
Consumables	64,488
Fuel	25,902
Insurance	173,450
Legal and professional fees	65,002
Office expenses	70,788
Pension expense	324,996
Purchase of capital assets, net	878,961
Repairs and maintenance	550,507
Tax collector fees	54,960
Telephone and communications	87,811
Travel and meals	5,039
Utilities	66,624
Wages and payroll taxes - administration	128,528
Wages and payroll taxes - firefighters	<u>4,224,540</u>
Total expenditures	<u>6,755,648</u>

Excess of revenues over expenditures/net change in fund balance (741,254)

FUND BALANCE - beginning of year 18,680,734

FUND BALANCE - end of year \$ 17,939,480

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, 2021

NET CHANGE IN GENERAL FUND BALANCE	\$ (741,254)
Government funds report capital outlays as expenditures, whereas those costs are shown as increases in capital assets in the statement of net position.	868,851
Depreciation is not recognized as an expense in the government fund since it does not require the use of current financial resources.	(630,350)
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.	(154,045)
Deferred revenues are recorded in the funds, but are not deferred under the measurement focus employed in the statement of net position.	<u>2,009,910</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,353,112</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, 2021

(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.

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. Program revenues include (a) intergovernmental payments, fees, fines and charges paid for goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including property tax and interest income are presented as general revenues.

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.

Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, grants and contributions. On an accrual basis, revenue from property taxes and sales taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they 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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

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

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's practice to use restricted resources first, then unrestricted resources.

Fund financial statements

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.

Cash and cash equivalents

The District considers cash and cash equivalents to be cash in demand accounts, certificates of deposit, savings accounts, and other investments with an original maturity of three (3) months or less.

Property taxes

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

During the year ended December 31, 2021, the District levied an ad valorem tax at the rate of \$0.10 per \$100 of assessed valuation for the 2021 tax year. This resulted in a tax levy of \$7,533,234 on the adjusted taxable valuation of \$7,533,234,000 for the 2021 tax year.

It is the District's policy to recognize revenues from the tax levy in the calendar year when the proceeds of this levy are budgeted and made available for the District's operations. The collections on the October 1, 2021 levy are considered deferred inflows of resources until the subsequent calendar year. No allowance for doubtful accounts is considered necessary at this time.

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.

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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

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

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, 2021. The District does not use encumbrances or appropriations.

Net pension liability

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.

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 no other restrictions on its net position.

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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

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

Fund balance classification (continued)

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, 2021.

Unassigned

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

Restricted amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year.

Subsequent events

The District evaluated all events or transactions that occurred after December 31, 2021, and through May 27, 2022 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) 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, 2021.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(3) 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.

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, 2021, the District held cash in one financial institution in two demand deposit accounts totaling \$407,771 and \$1,229,893 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 \$15,364,744 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 \$15,964 as of December 31, 2021. 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, 2021 was \$15,348,780.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(3) Cash and temporary investments (continued)

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.

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, 2021, the ratings of the various investment pools were:

<u>Pool</u>	<u>Rating</u>	<u>Rating Agency</u>
TexPool	AAA-m	Standard & Poor’s
Texas CLASS	AAA-m	Standard & Poor’s

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, 2021 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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(3) Cash and temporary investments (continued)

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	\$ 1,229,893
External investment pools:	
TexPool	<u>15,964</u>
Total external investment pools	1,245,857
Investments measured at NAV:	
External investment pools:	
Texas CLASS	<u>15,348,780</u>
Total	<u>\$ 16,594,637</u>

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>\$ 15,348,780</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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(4) Capital assets

Capital asset activity for the District for the year ended December 31, 2021 was as follows:

	Beginning Balance	Reclass and Additions	Reclass and Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,082,550	\$ -	\$ -	\$ 1,082,550
Construction in progress	-	814,218	-	814,218
Total capital assets, not being depreciated	<u>1,082,550</u>	<u>814,218</u>	<u>-</u>	<u>1,896,768</u>
Capital assets, being depreciated:				
Buildings and improvements	9,526,790	-	-	9,526,790
Emergency service equipment	5,800,345	54,633	-	5,854,978
Station furniture and equipment	545,901	-	-	545,901
Total capital assets, being depreciated	<u>15,873,036</u>	<u>54,633</u>	<u>-</u>	<u>15,927,669</u>
Less accumulated depreciation:				
Buildings and improvements	(1,584,742)	(238,897)	-	(1,823,639)
Emergency service equipment	(3,370,105)	(353,392)	-	(3,723,497)
Station furniture and equipment	(403,934)	(38,061)	-	(441,995)
Total accumulated depreciation	<u>(5,358,781)</u>	<u>(630,350)</u>	<u>-</u>	<u>(5,989,131)</u>
Total capital assets - net	<u>\$ 11,596,805</u>	<u>\$ 238,501</u>	<u>\$ -</u>	<u>\$ 11,835,306</u>

Depreciation was charged to the function of public safety totaling \$630,350.

(5) 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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(5) Employee retirement system (continued)

Benefits provided

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

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

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

Employee covered by benefit terms

As of December 31, 2020, the following employees were covered by the benefit terms:

Active employees	77
Number of inactive employees entitled to, but not yet receiving benefits	<u>23</u>
	<u>100</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 6.1% for year ended December 31, 2020. The contribution rate payable by the employee members is 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(5) Employee retirement system (continued)

The District's total payroll in fiscal year 2021 was \$3,157,391, with District's contributions based on payroll of \$3,136,545. Employee contributions totaled \$251,657 during the year ended December 31, 2021. The District made actual cash contributions of \$319,245 to the plan during the year ended December 31, 2021.

Net pension liability

The District's net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	4.60%
Investment rate of return	7.50%
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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(5) Employee retirement system (continued)

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.

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.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(5) Employee retirement system (continued)

Discount rate (continued)

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 7.60%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Long-term expected rate of return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2021 information for a 10-year time horizon.

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FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(5) Employee retirement system (continued)

Long-term expected rate of return (continued)

Note that the valuation assumption for long-term expected return is re-assessed at a minimum in detail at a minimum of every four years and is set based on a long-term time horizon. The TCDRS Board of Trustee adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. Milliman relies on the expertise of Cliffwater in this assessment.

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	11.50%	4.25%
Global Equities	MSCI World (net) Index	2.50%	4.55%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	5.00%	4.25%
Int'l Equities - Emerging Markets	MSCI EM Emerging Markets (net) Index	6.00%	4.75%
Investment - Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.85%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	2.11%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.70%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	5.70%
REIT Equities	67% FTSE NAREIT All Equity REIT's Index + 33% S&P Global REIT (net) Index	2.00%	3.45%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.10%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	4.90%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	7.25%
Hedge Funds	Hedge Fund Research, Inc. ("HFRI") Fund of Funds Composite Index	6.00%	1.85%
Cash Equivalents	90-Day U.S. Treasury	2.00%	-0.70%

⁽¹⁾ Target asset allocation adopted at the March 2021 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal to expected return minus assumed inflation rate of 2.0%, per Cliffwater's 2021 capital market assumptions.

⁽³⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ 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, 2021

(5) 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, 2019	\$ 1,419,050	\$ 1,467,171	\$ (48,121)
Changes for the year:			
Service cost	393,590	-	393,590
Interest on total pension liability	146,550	-	146,550
Effect of plan changes	270,009	-	270,009
Effect of economic/demographic gains or losses	(149)		(149)
Effect of assumptions changes or inputs	178,310	-	178,310
Refunds of contributions	(6,084)	(6,084)	-
Benefit payments	(823)	(823)	-
Administrative expenses	-	(1,488)	1,488
Member contributions	-	219,558	(219,558)
Net investment income	-	152,392	(152,392)
Employer contributions	-	190,388	(190,388)
Other	-	12,072	(12,072)
Balance as of December 31, 2020	<u>\$ 2,400,453</u>	<u>\$ 2,033,186</u>	<u>\$ 367,267</u>

Sensitivity analysis

The following presents the net pension liability of the employer, calculated using the discount rate of 7.60%, 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 (6.60%) or 1.0% point higher (8.60%) than the current rate.

	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Total pension liability	\$ 2,819,775	\$ 2,400,452	\$ 2,053,448
Fiduciary net position	<u>2,033,186</u>	<u>2,033,186</u>	<u>2,033,186</u>
Net pension liability (asset)	<u>\$ 786,589</u>	<u>\$ 367,266</u>	<u>\$ 20,262</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(5) Employee retirement system (continued)

Deferred inflows/outflows of resources

As of December 31, 2020, 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	\$ 134	\$ 104,779
Changes of assumptions	2,526	160,479
Net difference between projected and actual earnings	24,910	-
Contributions made subsequent to measurement date	-	319,245
Total	<u>\$ 27,570</u>	<u>\$ 584,503</u>

The District reported \$319,245 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>	
2021	\$ 26,706
2022	28,467
2023	15,233
2024	27,204
2025	30,630
Thereafter	<u>109,448</u>
	<u>\$ 237,688</u>

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FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

(5) Employee retirement system (continued)

Pension expense

For the year ended December 31, 2021, the District recognized pension expense of \$473,340 as follows:

Service cost	\$ 393,590
Interest on total pension liability ⁽¹⁾	146,550
Effect on plan changes	270,009
Administrative expenses	1,488
Member contributions	(219,558)
Expected investment return, net of investment expenses	(135,266)
Recognition of assumption changes or inputs:	
Recognition of economic/demographic gains or losses	13,115
Recognition of assumption changes or inputs	17,515
Recognition of investment gains or losses	(2,031)
Other ⁽²⁾	<u>(12,072)</u>
Pension expense	<u>\$ 473,340</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, 2021

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Property taxes	\$ 7,183,578	\$ 5,481,430	\$ (1,702,148)
Penalties and interest	-	30,763	30,763
Charges for servies	-	444,257	444,257
Interest income	80,000	21,786	(58,214)
Miscellaneous	-	36,158	36,158
Total revenues	<u>7,263,578</u>	<u>6,014,394</u>	<u>(1,249,184)</u>
EXPENDITURES:			
Wages and payroll taxes - firefighters	4,147,680	4,224,540	(76,860)
Purchase of capital assets - net	386,800	878,961	(492,161)
Repairs and maintenance	653,460	550,507	102,953
Pension expense	326,617	324,996	1,621
Insurance	166,950	173,450	(6,500)
Legal and professional fees	84,000	65,002	18,998
Wages and payroll taxes - administration	104,972	128,528	(23,556)
Consumables	116,300	64,488	51,812
Utilities	64,775	66,624	(1,849)
Tax collector fees	61,000	54,960	6,040
Office expenses	124,138	70,788	53,350
Telephone and communications	52,500	87,811	(35,311)
Fuel	28,000	25,902	2,098
Commissioners fees and expenses	20,000	24,841	(4,841)
Travel and meals	17,500	5,039	12,461
Appraisal district fees	9,400	9,211	189
Contingencies	50,000	-	50,000
Total expenditures	<u>6,414,092</u>	<u>6,755,648</u>	<u>(341,556)</u>
Excess of Revenues Over (Under) Expenditures	849,486	(741,254)	(1,590,740)
Fund Balance, beginning of year	<u>18,680,734</u>	<u>18,680,734</u>	-
Fund Balance, end of year	<u>\$ 19,530,220</u>	<u>\$ 17,939,480</u>	<u>\$ (1,590,740)</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

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

Measurement Years Ended December 31,

Plan Year Ended December 31,	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total Pension Liability:					
Service cost	\$ 393,590	\$ 357,360	\$ 262,719	\$ 236,956	\$ 220,558
Interest on total pension liability	146,550	104,805	63,523	37,711	8,649
Effects of plan changes	270,009	-	-	-	-
Effects of assumption changes or inputs	178,310	-	-	(3,790)	-
Effects of economic/demographic (gains) or losses	(149)	23,345	93,360	24,625	3,067
Benefit payments/refunds of contributions	<u>(6,907)</u>	<u>(5,865)</u>	<u>(3,368)</u>	<u>(1,838)</u>	<u>(2,767)</u>
Net change in total pension liability	981,403	479,645	416,234	293,664	229,507
Total pension liability, beginning	<u>1,419,050</u>	<u>939,405</u>	<u>523,171</u>	<u>229,507</u>	<u>-</u>
Total pension liability, ending (a)	<u>\$ 2,400,453</u>	<u>\$ 1,419,050</u>	<u>\$ 939,405</u>	<u>\$ 523,171</u>	<u>\$ 229,507</u>
Fiduciary Net Position:					
Employer contributions	\$ 190,388	\$ 184,112	\$ 166,383	\$ 141,457	\$ 120,554
Member contributions	219,558	210,921	190,307	138,103	117,219
Investment income, net of investment expenses	152,392	149,968	(6,466)	39,289	-
Benefit payments/refunds of contributions	(6,907)	(5,865)	(3,369)	(1,838)	(2,767)
Administrative expenses	(1,488)	(1,118)	(736)	(371)	-
Other	<u>12,072</u>	<u>13,528</u>	<u>10,583</u>	<u>3,718</u>	<u>3,559</u>
Net change in fiduciary net position	566,015	551,546	356,702	320,358	238,565
Fiduciary net position, beginning	<u>1,467,171</u>	<u>915,625</u>	<u>558,923</u>	<u>238,565</u>	<u>-</u>
Fiduciary net position, ending (b)	<u>\$ 2,033,186</u>	<u>\$ 1,467,171</u>	<u>\$ 915,625</u>	<u>\$ 558,923</u>	<u>\$ 238,565</u>
Net pension liability/(asset), ending = (a) - (b)	<u>\$ 367,267</u>	<u>\$ (48,121)</u>	<u>\$ 23,780</u>	<u>\$ (35,752)</u>	<u>\$ (9,058)</u>
Fiduciary net position as a % of total pension liability	84.70%	103.39%	97.47%	106.83%	103.95%
Pension covered payroll	\$ 3,136,545	\$ 3,013,153	\$ 2,718,669	\$ 1,972,898	\$ 1,674,554
Net pension liability/(asset) as % of covered payroll	11.71%	-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, 2020, 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 Years 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	7.2%
2017	141,457	141,457	-	1,972,898	7.2%
2018	166,383	166,383	-	2,718,669	6.1%
2019	184,112	184,112	-	3,013,153	6.1%
2020	190,388	190,388	-	3,136,545	6.1%

NOTE: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of December 31, 2021, only 5 years are included and additional years will be added in the future as the information becomes available.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2021

(1) Budgetary process

The Board of Commissioners adopts an annual non-appropriated budget for the General Fund in accordance with the accounting principles applicable to that fund. The District's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ended December 31, 2021. 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, 2021

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

Methods and assumptions used to determine contributions rates:

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	20.0 years (based on contribution rate calculated in 12/31/2020 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.6% average over career including inflation
Investment Rate of Return	7.50%, net of administrative and 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 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other 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. 2020: 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 general fund of the Fort Bend County Emergency Services District No. 2 (the “District”), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated May 27, 2022.

Report on 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free of 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 financial statements. 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 an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ABIP, PC

Houston, Texas

May 27, 2022