

AUSTIN COUNTY EMERGENCY
SERVICES DISTRICT NO. 2

Financial Statements
with
Report of Independent Auditor

September 30, 2018

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Introductory Section

Title Page

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Austin County Emergency Services District No. 2

We have audited the accompanying financial statements of the governmental activities and General fund of the Austin County Emergency Services District No. 2, (the "District") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General fund of the Austin County Emergency Services District No. 2 as of September 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of Contributions on pages 3 through 6, and 23 through 24, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brenham, Texas
March 18, 2019

Said S. Smead

Austin County
Emergency Services District No. 2
P.O. Box 1485
Sealy, Texas 77474

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial activities of the Austin County Emergency Services District No. 2 for the year ended September 30, 2018. The information presented herein should be considered in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

The Statement of Net Position and the Statement of Activities are statements required under GASB 34 and provide information about the activities of the district as a whole and present a longer-term view of the District's finances.

Overview of the Financial Statements

The annual report consists of three parts – Independent Auditors Report, Management Discussion and Analysis, and Basic Financial Statements.

- The first statement shows Statements of Net Position and Governmental Funds Balance Sheet.
- The next statement presents the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

The financial statements also include notes that explain some of the information in the financial statements and provide more details.

Reporting the District as a Whole

The accompanying **Government Wide Financial Statements** include two statements that present financial data for the district as a whole. The Statement of Activities reports information about the district as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting. All the current year revenues and expenses are taken into account regardless of when funds are received or paid.

These two statements report the District's net position and liabilities and changes in them. The difference between the District's assets and liabilities are one way to measure the district's financial position.

Reporting the District's Most Significant Funds

The fund financial statements provide detailed information about the District's general fund which is the only fund.

- General fund is a governmental fund. This fund focuses on how much money flows into and out of the district and the balances left at year end that are available for spending. The governmental fund statements provided detailed short term view of the District's general government operations and the basic services it provides.

Government-Wide Financial Statements

The table below compares the fiscal year ending September 30, 2017 to the fiscal year ending September 30, 2018.

Statement of Net Position

	September 30, 2017	September 30, 2018
Current & Other Assets	\$ 678,377	\$ 642,807
Capital Assets	2,389,726	2,263,525
Total Assets	<u>3,068,103</u>	<u>2,906,332</u>
Deferred Outflows Related to Pensions	6,440	47
Outstanding Debt	1,724,135	1,602,447
Net Pension Liability	10,801	12,557
Other Liabilities	123,029	88,466
Total Liabilities	<u>1,857,965</u>	<u>1,703,470</u>
Deferred Inflows Related to Pensions	-	727
Net investment in capital assets	665,591	661,078
Unrestricted Net Position	550,987	541,104
Total Net Position	<u>\$ 1,216,578</u>	<u>\$ 1,202,182</u>

Statement of Activities

	Ending September 30, 2017	Ending September 30, 2018
Property Tax Revenue	\$ 929,937	\$ 1,003,779
Operating Grants and Contributions	1,052	1,071
Other Income	4,410	7,516
Total Revenue	<u>935,399</u>	<u>1,012,366</u>
Professional Fees	35,897	50,877
Other Administrative Expenses	5,473	3,953
Department Expenses	783,294	895,631
Interest Expense	81,448	76,301
Total Expenses	<u>906,112</u>	<u>1,026,762</u>
Change in Net Position	<u>\$ 29,287</u>	<u>\$ (14,396)</u>

As of September 30, 2018, the District had net position of \$1,202,182. As of September 30, 2017 net position was \$1,216,578 for a net decrease of \$14,396.

Department expenses increased by \$112,337 in 2018 primarily due to the purchase of Airpacks in the current year and an increase in legal fees.

General Fund Budget

Differences between the original budget and the actual income/expense are summarized as follows:

- Income was \$10,726 more than budgeted in 2018 primarily due to the percentage of collections being higher than expected.
- Overall, expenses were \$8,150 more than budgeted in 2018 due to an increase in legal expenses and the purchase of Airpacks that were not covered by a grant.

Capital Assets

The District owns the following capital assets:

<u>Governmental activities</u>	Balance at Sept. 30, 2017	Additions/ Completions	Retirements/ Adjustments	Balance at Sept. 30, 2018
Capital assets being depreciated				
Buildings	\$ 2,150,767	\$ -	\$ -	\$ 2,150,767
Vehicles	638,520	-	-	638,520
Machinery and equipment	171,600	-	-	171,600
Total at historical cost	<u>2,960,887</u>	<u>-</u>	<u>-</u>	<u>2,960,887</u>
Less: accumulated depreciation for:				
Buildings	273,264	53,769	-	327,033
Vehicles	239,650	60,992	-	300,642
Machinery and equipment	58,247	11,440	-	69,687
Total accumulated depreciation	<u>571,161</u>	<u>126,201</u>	<u>-</u>	<u>697,362</u>
Total capital assets being depreciated, net	<u>2,389,726</u>	<u>(126,201)</u>	<u>-</u>	<u>2,263,525</u>
Governmental activities capital assets, net	<u>\$ 2,389,726</u>	<u>\$ (126,201)</u>	<u>\$ -</u>	<u>\$ 2,263,525</u>

Long Term Debt

At the end of the 2018 fiscal year, the District owed \$1,602,447 on two loans. The loans were for the construction of a fire station and the purchase of a pumper truck.

Economic Factors and Next Year's Budget

Beginning October 2018, the District will be providing fire protection services by employing staff of the former Sealy Volunteer Fire Department and overseeing its operations. The District is able to provide these services in 2019 with a budget that is \$96,516 more than the 2018 budget. The 2019 budget reflects increases in operating expenses of \$30,828, payroll expenses of \$46,630, capital expenses of \$12,500, and other expenses of \$6,558.

Contacting the District's Financial Management

This financial report is designed to provide our taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have a question about this report or need additional information, contact Austin County Emergency Services District No. 2, P.O. Box 1485, Sealy, Texas 77474.

Austin County Emergency Services District #2
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2018

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 328,305	\$ -	\$ 328,305
Investments	286,381	-	286,381
Receivables, tax	27,829	-	27,829
Prepays	-	292 (2)	292
Capital assets	-	2,263,525 (2)	2,263,525
Total Assets	\$ 642,515	\$ 2,263,817	\$ 2,906,332
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	-	47 (4)	47
LIABILITIES			
Accounts payable	\$ 43,980	\$ -	\$ 43,980
Accrued interest	-	44,486 (1)	44,486
Net pension liability	-	12,557 (4)	12,557
Note payable:			
Due within one year	-	126,716 (1)	126,716
Due after one year	-	1,475,731 (1)	1,475,731
Total Liabilities	\$ 43,980	\$ 1,659,491	\$ 1,703,470
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	\$ -	\$ 727 (4)	\$ 727
Unavailable revenue	25,452	(25,452) (3)	-
Total deferred inflows of resources	25,452	(24,725)	727
FUND BALANCE / NET POSITION			
Fund Balance:			
Assigned	573,083	(573,083)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 642,515	(573,083)	-
Net Position:			
Net investment in capital assets		-	661,078
Unrestricted		1,202,182	541,104
Total Net Position		\$ 1,202,182	\$ 1,202,182

- (1) Long-term liabilities are not recorded until due in the fund financial statements.
- (2) Capital assets and prepaids are not financial resources and are not reported in the general fund.
- (3) Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.
- (4) Pension liabilities are not due and payable in the current period and, therefore, they are not reported in the funds.

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

Austin County Emergency Services District #2
Statement of Activities and
Governmental Fund Statements of Revenues, Expenditures,
and Changes in Fund Balance
For the Year Ended September 30, 2018

	General Fund	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 993,412	\$ (48) (3)	993,364
Penalty and interest	10,415	-	10,415
Interest income	5,934	-	5,934
Operating grants and contributions	-	1,071 (4)	1,071
Miscellaneous	1,582	-	1,582
Total revenues	<u>1,011,343</u>	<u>1,023</u>	<u>1,012,366</u>
Expenditures/expenses:			
Administrative:			
Appraisal District fees	23,816	7,226 (5)	31,042
Professional fees	19,835	-	19,835
Board expenses	1,737	-	1,737
Office	54	-	54
Advertising	704	-	704
Other expenses	1,750	(292) (5)	1,458
Department:			
Sealy Volunteer Fire Department			
Operations	756,694	-	756,694
Pension expense (income)	2,788	9,948 (4)	12,736
Depreciation expense	-	126,201 (2)	126,201
Debt Service:			
Principal	121,688	(121,688) (1)	-
Interest	79,701	(3,400) (4)	76,301
Total expenditures/expenses	<u>1,008,767</u>	<u>17,995</u>	<u>1,026,762</u>
Change in fund balance/ Change in net position	2,576	(16,972)	(14,396)
Fund balance / net position:			
Beginning of year	570,507	646,070	1,216,578
End of the year	<u>\$ 573,083</u>	<u>\$ 629,098</u>	<u>1,202,182</u>

- (1) Repayment of debt principal is an expenditure in general fund, but the repayment reduces long-term liabilities in the Statement of Net Position.
- (2) General fund reports capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated based upon their estimated useful lives and reported as depreciation expense.
- (3) In the governmental fund, property taxes that are receivable, but not available are not recognized as income and are deferred.
- (4) Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the general fund.
- (5) Expenditures reported in the Statement of Activities are expensed once economic performance has occurred. In the Governmental funds expenditures are recognized when they are paid for.

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

Austin County Emergency Services District #2
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended September 30, 2018

	Original / Final Budget	Actual GAAP Basis	Adjustments to Budget Basis	Actual Budget Basis	Variance Over (Under)
Revenues:					
Property taxes	\$ 985,617	\$ 993,412	\$ -	\$ 993,412	\$ 7,795
Penalty and interest	-	10,415	-	10,415	10,415
Service fees	15,000	-	-	-	(15,000)
Interest income	-	5,934	-	5,934	5,934
Miscellaneous	-	1,582	-	1,582	1,582
Total revenues	<u>1,000,617</u>	<u>1,011,343</u>	<u>-</u>	<u>1,011,343</u>	<u>10,726</u>
Expenditures:					
Administrative					
Appraisal District fees	31,091	23,816	-	23,816	(7,275)
Professional fees	12,100	19,835	-	19,835	7,735
Board expenses	4,000	1,737	-	1,737	(2,263)
Office	150	54	-	54	(96)
Advertising	-	704	-	704	704
Other expenses	1,750	1,750	-	1,750	-
Fire Protection and Safety:					
Sealy Fire Department:					
Operations	744,932	756,694	-	756,694	11,762
Benefits	5,184	2,788	-	2,788	(2,396)
Capital Outlay	-	-	-	-	-
Debt Service					
Principal	201,410	121,688	79,701	201,389	(21)
Interest	-	79,701	(79,701)	-	-
Total expenditures	<u>1,000,617</u>	<u>1,008,767</u>	<u>-</u>	<u>1,008,767</u>	<u>8,150</u>
Net change in fund balance	-	2,576	-	2,576	2,576
Fund balance, beginning of year	<u>570,507</u>	<u>570,507</u>	<u>-</u>	<u>570,507</u>	<u>-</u>
Fund balance, end of the year	<u>\$ 570,507</u>	<u>\$ 573,083</u>	<u>\$ -</u>	<u>\$ 573,083</u>	<u>\$ 2,576</u>

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

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2018

1. Summary of significant accounting policies

The accompanying financial statements include all funds of Austin County Emergency Services District No. 2 (the District). The accounting policies of the District conform to generally accepted accounting principles. The following is a summary of the more significant policies:

A. Reporting entity

The District is a political subdivision created under Article III, Section 48-d, of the Texas Constitution by an affirmative vote of the Texas State Legislature. The District operates under Chapter 775 of the Health and Safety Code.

B. Basis of presentation

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. Governmental activities consist of only the general fund, as the general fund is the only fund of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Fund Financial Statements

The operations of the general fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. This fund is a governmental fund which is the general operating fund of the District. It is used to account for all financial resources.

C. Measurement focus and basis of accounting

Measurement Focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2018

In the fund financial statements, the “current financial resources” measurement focus is used. Only current financial assets and liabilities are generally included on this balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. The general fund uses fund balance as its measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

D. Use of estimates

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

E. Risk management

The District is exposed to various risks of loss from torts: theft of, damage to, and destruction of District assets; business interruption; errors and omissions; injuries; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

F. Income taxes

The District is a political subdivision under the laws of the State of Texas and, therefore, is exempt from federal income tax.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2018

G. Capital assets

Capital assets which include equipment, buildings, and vehicles are reported in the governmental activities column of the government-wide financial statements. The district defines capital assets as assets with an estimated useful life greater than one year. All capital assets are valued at historical cost or estimated historical cost if the actual historical cost is unavailable. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Improvements are capitalized over the remaining useful lives of the related capital assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation over the following estimated useful lives:

Machinery and equipment	15 years
Buildings	40 years
Vehicles	5-10 years

In the fund financial statements, capital assets used in governmental operations are accounted for as capital outlay expenditures of the governmental fund at the time of acquisition.

H. Fund equity

Government-wide statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2018

Fund statements

Governmental fund equity is classified as fund balance.

Classification of fund balances

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, and contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the District to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Board actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the Board or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Board actions. The assigned fund balance is only reported in the General Fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

Spending Prioritization in Using Available Resources

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the District budget considers restricted resources to be spent first.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2018

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the District's budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

I. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Emergency Services Retirement System (TESRS) and the additions to/deductions from TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Property tax

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

Taxes levied for fiscal years ending September 30, 2018 were at the tax rate of \$0.10 per \$100 valuation. The tax for the 2018 fiscal year was levied in 2017 on property within the District having an assessed valuation of approximately \$992,864,689.

3. Stewardship, compliance and accountability

The District adopted its 2018 budget on September 19, 2017. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the account level. The following expenditures exceeded budget: Professional fees by \$7,735, VFD operations by \$11,762, and advertising by \$704.

4. Cash and investments

At September 30, 2018, the District's cash and investments totaled \$614,686, and consisted of four demand deposit accounts, three certificates of deposits, and investments in an investment pool. The demand deposit accounts have a total balance of \$156,622. Certificates of deposit total \$171,683. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District's deposits may not be returned to it. As of

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2018

September 30, 2018, the District's deposits exceeded FDIC insurance by approximately \$24,000.

The investments in TexPool have a balance of \$286,381 as of September 30, 2018. Authorized investments for TexPool funds include government securities, repurchase and reverse repurchase agreements, certificates of deposit, money market mutual funds and commercial paper. Fair value approximates carrying value. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2018, the District does not have any investments exposed to custodial credit risk.

5. Capital Assets

The following is a summary of capital asset activity during the year ended September 30, 2018.

<u>Governmental activities</u>	Balance at Sept. 30, 2017	Additions/ Completions	Retirements/ Adjustments	Balance at Sept. 30, 2018
Capital assets being depreciated				
Buildings	\$ 2,150,767	\$ -	\$ -	\$ 2,150,767
Vehicles	638,520	-	-	638,520
Machinery and equipment	171,600	-	-	171,600
Total at historical cost	<u>2,960,887</u>	<u>-</u>	<u>-</u>	<u>2,960,887</u>
Less: accumulated depreciation for:				
Buildings	273,264	53,769	-	327,033
Vehicles	239,650	60,992	-	300,642
Machinery and equipment	58,247	11,440	-	69,687
Total accumulated depreciation	<u>571,161</u>	<u>126,201</u>	<u>-</u>	<u>697,362</u>
Total capital assets being depreciated, net	<u>2,389,726</u>	<u>(126,201)</u>	<u>-</u>	<u>2,263,525</u>
Governmental activities capital assets, net	<u>\$ 2,389,726</u>	<u>\$ (126,201)</u>	<u>\$ -</u>	<u>\$ 2,263,525</u>

6. Long-term debt

The District has entered into loan agreements for financing a fire station and a pumper truck used by the Department.

Changes in Long-Term Liabilities. During the year ended September 30, 2018, the following changes occurred in long-term debt:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<i>September 30, 2018</i>					
Note obligation	\$ 1,724,135	\$ -	\$ 121,688	\$ 1,602,447	\$ 126,716

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2018

The notes bear interest at 4.994% and 2.85% and are payable as follows:

Year Ending September 30:		
	Principal	Interest
2019	\$ 126,716	\$ 74,672
2020	131,993	69,395
2021	137,489	63,899
2022	143,254	58,134
2023	140,612	52,127
2024-2028	533,791	179,600
2029-2031	388,592	39,443
Total payments	\$ 1,602,447	\$ 537,270

7. Pension plan

Plan Description

The District participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) established and administered by the State of Texas to provide pension benefits for emergency service personnel who serve without significant monetary remuneration. At August 31, 2018, there were 238 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2018, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,533
Terminated Members Entitled to benefits but Not Yet Receiving Them	1,927
Active Participants (Vested and Non-vested)	3,927

Pension Plan Fiduciary Net Position

Detailed information about the TESRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuation which may be of interest are also available at the same link.

Benefits Provided

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
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Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by Board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching the age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of the duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017. Based on the August 31, 2018 actuarial valuation, the part two contributions are not required for an adequate contribution arrangement.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
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Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by the local governing bodies on a pay-as-you-go basis for the members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefits paid by the System.

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2018, total contributions (dues, prior service, and interest on prior service financing) of \$2,788 were paid by the District. The State appropriated \$1,329,219 for the fiscal year ending August 31, 2018, to plan as a whole.

Actuarial Assumptions

The total pension liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	8/31/2018
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value

Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increase	N/A
*Includes Inflation At	3.00%
Cost of Living Adjustments	None

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA. The long-term expected rate of return on

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pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (3.00%). In addition, the final 7.75% assumption reflected a reduction of 0.26% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities		
Large Cap Domestic	32.00%	5.81%
Small Cap Domestic	15.00%	5.92%
Developed International	15.00%	6.21%
Emerging Markets	5.00%	7.18%
Master Limited Partnership	5.00%	7.61%
Real Estate	5.00%	4.46%
Fixed Income	23.00%	1.61%
Cash	0.00%	0.00%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to changes in the discount rate

The following presents the net pension liability of the District, calculated using the discount rate of 7.75%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

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Notes to Basic Financial Statements
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	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 24,955	\$ 12,557	\$ 4,195

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2018, the District reported a liability of \$12,557 for its proportionate share of the plan's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 12,557
State's proportionate share that is associated with the District	3,485

**Calculated using the District's proportionate share of contributions multiplied by the State's share of the collective net pension liability.*

The net pension liability was measured as of August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At August 31, 2018, the employer's proportion of the collective net pension liability was 0.058%.

There were changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period, including the mortality rate improvement projection.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2018 the District recognized pension expense of \$12,736. The District recognized on-behalf revenues of \$1,071 calculated by taking the State's total contributions to TESRS multiplied by the State's proportionate share.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
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At August 31, 2018, the District reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ -	\$ 33
Changes in assumptions	47	-
Differences between expected and actual experience	-	694
	\$ 47	\$ 727

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30	Pension Expense
2019	\$ 809
2020	(450)
2021	(663)
2022	(376)
	\$ (680)

8. Fund balance

The District has assigned the entire portion of its fund balance for future capital expenses and contingencies.

9. Ground lease agreement

The District has entered into a ground lease agreement with the City of Sealy, Texas effective June 22, 2011. The agreement provides for the District to build a new fire station on premises that will be leased from the City. The lease is for a 30-year term, ending on June 30, 2041, however, the District can renew the lease for an additional 30-year term. As part of the agreement, the District agrees to pay one dollar per year to the City.

AUSTIN COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Basic Financial Statements
September 30, 2018

10. Subsequent events

In October 2018, the Board terminated its service agreement with the Sealy Volunteer Fire Department (the "Department"). All operations of the Department were transferred to the District.

Required Supplementary Information

Austin County Emergency Services District #2
 Required Supplementary Information
 September 30, 2018

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)
 Last 10 Years (will ultimately be displayed)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.058%	0.045%	0.059%	0.085%
District's proportionate share of the net pension liability	\$ 12,557	\$ 10,801	\$ 17,186	\$ 22,689
State's proportionate share of the net pension liability	3,485	3,537	5,941	7,865
Total	<u>\$ 16,042</u>	<u>\$ 14,338</u>	<u>\$ 23,127</u>	<u>\$ 30,554</u>
Number of Active Members*	7	7	5	9
District's Net Pension Liability per Active Member	\$ 1,794	\$ 1,543	\$ 3,437	\$ 2,521
Plan fiduciary net position as a percentage of the total pension liability	84.30%	81.40%	76.30%	76.90%

*There is no compensation for active members. Number of active members is used instead.

Notes to Schedule:

Changes in benefit terms - There were no changes in benefit terms that affected the measurement of the total pension liability during the measurement period.

Changes in assumptions - There were changes of assumptions or other inputs that affected the measurement of the total pension liability during the measurement period, including the mortality rate improvement projection.

Austin County Emergency Services District #2
 Required Supplementary Information
 September 30, 2018

SCHEDULE OF CONTRIBUTIONS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)
 Last 10 Years (will ultimately be displayed)

	<u>8/31/2018</u>	<u>8/31/2017</u>	<u>8/31/2016</u>	<u>8/31/2015</u>
Contractually required contribution	\$ 2,788	\$ 2,160	\$ 2,700	\$ 3,996
Contributions in relation to the contractually required contribution	2,788	2,160	2,700	3,996
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Number of Active Members	7	7	5	9
Contributions per Active Member	\$ 398	\$ 309	\$ 540	\$ 444

Notes to Schedule of Contributions:

*There is no compensation for active members. Number of active members is used instead.

March 18, 2019

Board of Commissioners
Austin County Emergency Services District No. 2

We have audited the financial statements of the governmental activities and general fund of Austin County Emergency Services District No. 2 (the District) for the year ended September 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 31, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Accumulated depreciation	\$697,362
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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

Net change in fund balance, per books	\$ 112,498
Adjustments:	
Deferred revenue	307
Accounts payable	4,287
Debt service	(114,516)
Net effect of adjustments	<u>(109,922)</u>
Net change in fund balance, as adjusted	<u>\$ 2,576</u>

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 18, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of Contributions which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of Commissioners and management of the Austin County Emergency Services District No. 2 and is not intended to be, and should not be, used by anyone other than these specified parties.

Sidd Schwab

Austin County Emergency Services District No. 2
Schedule of Unadjusted Audit Differences
September 30, 2018

Description of Audit Difference	Total Assets	Total Deferred Outflows of Resources	Total Liabilities	Total Deferred Inflows of Resources	Fund Balance	Change in Fund Balance
GENERAL FUND						
Prior year deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ 1,586	\$ (1,586)
Current year unadjusted differences	-	-	-	-	1,586	(1,586)
Total unadjusted audit differences	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,586</u>	<u>\$ (1,586)</u>
Financial statement caption totals	\$ 642,515	\$ -	\$ 43,980	\$ 25,452	\$ 573,083	\$ 2,576
Net audit differences as a percentage of financial statement caption totals	0.00%	0.00%	0.00%	0.00%	0.28%	-61.57%

Description of Audit Difference	Total Assets	Total Deferred Outflows of Resources	Total Liabilities	Total Deferred Inflows of Resources	Net Position	Change in Net Position
GOVERNMENT-WIDE						
Prior year pension expense	\$ -	\$ -	\$ -	\$ -	\$ (5,263)	\$ 5,263
Prior year unrecorded adjustments affecting the current year	-	-	-	-	-	-
Total unadjusted audit differences	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,263)</u>	<u>\$ 5,263</u>
Financial statement caption totals	\$ 2,906,332	\$ 47	\$ 1,703,470	\$ 727	\$ 1,202,182	\$ (14,396)
Net audit differences as a percentage of financial statement caption totals	0.00%	0.00%	0.00%	0.00%	-0.44%	-36.56%