

**HOUSTON COUNTY EMERGENCY  
SERVICES DISTRICT NO. 2  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022**

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
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**SEPTEMBER 30, 2022**

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**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**BOARD OF COMMISSIONERS**  
**SEPTEMBER 30, 2022**

William Money ..... President  
Steve Hawkins ..... Vice President  
Ken Lair ..... Treasurer  
Greg Brooks ..... Secretary  
Todd Stone ..... Commissioner

**FINANCIAL SECTION**



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Commissioners  
Houston County Emergency Services District No. 2

### **Opinions**

We have audited the accompanying financial statements of the governmental activities and the major fund of Houston County Emergency Services District No. 2 (the "District"), as of and for the year ended September 30, 2022, 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 major governmental fund of Houston County Emergency Services District No. 2, as of September 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Houston County Emergency Services District No. 2, 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 these 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 Houston County Emergency Services District No. 2's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditors' 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

## INDEPENDENT AUDITORS' REPORT – *CONTINUED*

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 Houston County Emergency Services District No. 2'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 Houston County Emergency Services District No. 2'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 information on pages 7-11 and 28, 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2023, on pages 30-31, 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

**INDEPENDENT AUDITORS' REPORT – CONTINUED**

and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

February 7, 2023

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022  
(UNAUDITED)**

As management of Houston County Emergency Services District No. 2 (the "District"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2022. We encourage readers to consider information presented here as well as the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- On October 1, 2021, the District levied ad valorem taxes of \$.073820 per \$100 of assessed valuation. The total tax levied was \$774,938. Property tax revenue reported for the year was \$788,157. Investment income for the year was \$897.
- Current year expenses totaled \$714,853. Approximately 86% (or \$616,081) represented either direct funding to VFDs for operations or depreciation and interest on equipment/buildings provided them. Other general government expenses (which include a 5% collection fee paid to the County tax assessor-collector) totaled \$98,772.
- Overall revenues exceeded expenses (or an increase in net position) by \$75,762. The District's unrestricted net position at September 30, 2022 was \$337,975.
- The District's overall long-term debt increased by \$58,427 during the fiscal year. New debt in the amount of \$80,000 was incurred. Interest on long-term debt was \$14,257.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements must include both government-wide and fund financial statements. Governments must also present a Management's Discussion and Analysis, Notes to the Financial Statements, and Required Supplementary Information.

GASB Statement No. 34 provides that for special-purpose governments engaged in a single government program, the fund financial statements and the government-wide statements may be combined. The District has elected to present financial statements under this combined method.

Using this method, governments will present financial statements that begin with *governmental fund financial statements*, with columns for major funds (usually only a general fund). The next column is an adjustments column. It reconciles the amounts reported in the governmental funds to show how specific individual accounts would change when reported on the accrual basis of accounting. The final column of these combined statements shows the amounts that normally would appear in the *government-wide statements*.



**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022  
(UNAUDITED)**

**Basic Financial Statements (pages 12 – 16).**

**Governmental Fund Financial Statements (first column).**

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is incurred.

*Governmental fund balance sheets* present only current assets and liabilities. Capital assets and long-term liabilities are excluded.

*Governmental fund statements of revenues, expenditures and changes in fund balance* report information about the inflows, outflows, and balances of current financial resources.

**Government-wide Financial Statements (final column).**

Government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

**Notes to the Financial Statements (pages 17 – 26).**

The notes provide additional information that is essential to a full understanding of the data provided in the fund and government-wide financial statements.

**Required Supplementary Information (page 28).**

In addition to the combined financial statements and accompanying notes, this report also presents certain supplementary information (RSI) as required by the Governmental Accounting Standards Board.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022  
(UNAUDITED)**

**THE DISTRICT'S NET POSITION**

Over time, net position (assets minus liabilities) may serve as a useful indicator of a government's financial position. At September 30, 2022, the District's assets exceeded its liabilities by \$1,766,828. During the year, revenues exceeded expenses (or an increase in net position) by \$75,762.

**The District's Net Position**

	Governmental Activities	
	2022	2021
Current and other assets	\$ 562,233	\$ 604,281
Capital assets	1,625,110	1,574,252
Total assets	2,187,343	2,178,533
Long-term liabilities	393,845	452,272
Other liabilities	26,670	35,195
Total liabilities	420,515	487,467
Net position		
Invested in capital assets, net of related debt	1,231,265	1,121,980
Restricted	197,588	193,802
Unrestricted	337,975	375,284
Total net position	\$ 1,766,828	\$ 1,691,066

**Change in Net Position**

Revenues		
Property taxes	\$ 788,157	\$ 766,284
Investment income	897	2,036
Gain (loss) on sale of capital assets	-	(2,484)
Other revenue	1,561	9,600
Total revenues	790,615	775,436
Expenses		
General government	98,772	90,737
Fire protection	601,824	478,053
Interest on long-term debt	14,257	17,278
Total expenses	714,853	586,068
Increase (decrease) in net assets	75,762	189,368
Net assets at beginning of year	1,691,066	1,501,698
Net assets at end of year	\$ 1,766,828	\$ 1,691,066

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022  
(UNAUDITED)**

**CAPITAL ASSETS**

The District's investment in capital assets as of September 30, 2022 totaled \$1,625,110 (net of accumulated depreciation).

**Capital Assets (Net of Depreciation)**

	Governmental Activities	
	2022	2021
Land	\$ 69,454	\$ 69,454
Construction in progress	2,225	86,236
Buildings	584,684	510,012
Furniture and equipment	2,624	2,624
Communication equipment	26,288	20,253
Fire vehicles and equipment	1,831,732	1,652,578
	2,517,007	2,341,157
Less accumulated depreciation	(891,897)	(766,905)
Net	\$ 1,625,110	\$ 1,574,252

Capital additions for the fiscal year totaled \$175,851. Additions included completion of the Ratcliff station, communication equipment and three trucks. There were no asset disposals during the year.

**DEBT ADMINISTRATION**

During the year, the District made principal payments of \$138,427 on existing debt. New long-term debt of \$80,000 was incurred. At the end of the current fiscal year, the District had total debt outstanding of \$393,845.

**Debt Outstanding**

	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	\$ 284,808	\$ 80,000	\$ (56,047)	\$ 308,761
Leases payable	167,464	-	(82,380)	85,084
Total notes payable	\$ 452,272	\$ 80,000	\$ (138,427)	\$ 393,845

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUND**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related requirements.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022  
(UNAUDITED)**

**Governmental Funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements.

As of September 30, 2022, the District's governmental funds reported a total fund balance of \$520,588. Of the total, \$197,588 was restricted for debt service and \$323,000 was unassigned. During the year, the fund balance in the District's governmental fund decreased by \$35,882.

**Budget.** A comparison of the governmental fund budget and actual results is presented as required supplementary information on page 28. Actual revenues were higher than budgeted amounts by \$54,516. Non-capital and/or debt service expenditures were lower than budgeted amounts by \$25,918.

The governmental fund balance decreased by \$35,882 during the fiscal year; no change in fund balance was anticipated.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 any questions about this report or need additional financial information, contact the District at P.O. Box 291, Crockett, Texas 75835.

## **Basic Financial Statements**

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUND BALANCE SHEET**  
**SEPTEMBER 30, 2022**

	Fire Protection and Prevention Fund	Adjustments (Note A)	Statement of Net Position
<b>ASSETS</b>			
Cash and cash equivalents	\$ 312,641	\$ -	\$ 312,641
Property taxes receivable, net of allowance	31,904	-	31,904
Due from Austino VFD	20,000	-	20,000
Restricted cash and cash equivalents	197,588	-	197,588
Other assets	100	-	100
Capital assets			
Nondepreciable	-	71,679	71,679
Depreciable, net of accumulated depreciation	-	1,553,431	1,553,431
<b>TOTAL ASSETS</b>	<b>\$ 562,233</b>	<b>1,625,110</b>	<b>2,187,343</b>
<b>LIABILITIES</b>			
Accounts payable	\$ -	-	-
Accrued interest payable	-	10,548	10,548
Due to Ratcliff VFD	16,122	-	16,122
Long-term liabilities			
Due within one year	-	141,672	141,672
Due after one year	-	252,173	252,173
<b>Total liabilities</b>	<b>16,122</b>	<b>404,393</b>	<b>420,515</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	25,523	(25,523)	-
<b>Total deferred inflows of resources</b>	<b>25,523</b>	<b>(25,523)</b>	<b>-</b>
<b>FUND BALANCE/NET POSITION</b>			
Fund balance			
Restricted for debt service	197,588	(197,588)	-
Unassigned	323,000	(323,000)	-
<b>Total fund balance</b>	<b>520,588</b>	<b>(520,588)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 562,233</b>		
<b>Net position</b>			
Invested in capital assets, net of related debt		1,231,265	1,231,265
Restricted for debt service		197,588	197,588
Unrestricted		337,975	337,975
<b>TOTAL NET POSITION</b>		<b>\$ 1,766,828</b>	<b>\$ 1,766,828</b>

See accompanying notes to the financial statements.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
SEPTEMBER 30, 2022**

**NOTE A – ADJUSTMENTS FROM GOVERNMENTAL FUND  
BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

Total governmental fund balance	\$	520,588
Certain revenues are not available to pay current period expenditures and therefore, are deferred in the governmental funds.		25,523
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds.		1,625,110
Interest payable on long-term debt does not require current financial resources and therefore, is not reported in the governmental funds.		(10,548)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.		<u>(393,845)</u>
Net position of governmental activities	\$	<u>1,766,828</u>

See accompanying notes to the financial statements.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>Fire Protection and Prevention Fund</u>	<u>Adjustments (Note B)</u>	<u>Statement of Activities</u>
<b>EXPENDITURES/EXPENSES</b>			
General government			
Tax assessor-collector fees	\$ 40,012	\$ -	\$ 40,012
Appraisal district fees	21,527	-	21,527
Legal and accounting	5,520	-	5,520
Insurance	18,963	-	18,963
Miscellaneous administrative expenses	12,750	-	12,750
Total general government expenditures	<u>98,772</u>	<u>-</u>	<u>98,772</u>
Fire prevention and protection			
Provider service payments	465,100	-	465,100
Equipment repairs	11,731	-	11,731
Capital outlay	175,851	(175,851)	-
Debt service			
Principal	138,426	(138,426)	-
Interest	17,652	(3,395)	14,257
Depreciation	-	124,993	124,993
Total fire prevention and protection expenditures	<u>808,760</u>	<u>(192,679)</u>	<u>616,081</u>
Total expenditures/expenses	<u>907,532</u>	<u>(192,679)</u>	<u>714,853</u>
<b>GENERAL REVENUES</b>			
Property taxes	789,192	(1,035)	788,157
Investment earnings	897	-	897
Other revenue	1,561	-	1,561
Total general revenues	<u>791,650</u>	<u>(1,035)</u>	<u>790,615</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	(115,882)	115,882	-
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from issuance of long-term debt	80,000	(80,000)	-
Total other financing sources (uses)	<u>80,000</u>	<u>(80,000)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(35,882)	35,882	-
Change in net position		75,762	75,762
<b>FUND BALANCE/NET POSITION</b>			
Beginning of the year	<u>556,470</u>	<u>1,134,596</u>	<u>1,691,066</u>
End of the year	<u>\$ 520,588</u>	<u>\$ 1,246,240</u>	<u>\$ 1,766,828</u>

See accompanying notes to the financial statements.



**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2  
RECONCILIATION OF EXCESS (DEFICIENCY) OF REVENUES  
OVER EXPENDITURES - GOVERNMENTAL FUND TO  
CHANGE IN NET POSITION - STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

**NOTE B – ADJUSTMENTS FROM EXCESS (DEFICIENCY) OF REVENUES  
OVER EXPENDITURES TO CHANGE IN NET POSITION**

Excess (deficiency) of revenues over expenditures - governmental fund	\$	(35,882)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		50,858
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		(1,035)
Repayment of long-term debt is an expenditure in the governmental funds, but is not an expense in the statement of activities.		138,426
Accrued interest expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in the governmental funds.		<u>3,395</u>
Change in net position - statement of activities	\$	<u><u>75,762</u></u>

See accompanying notes to the financial statements.

**Notes to the Financial Statements**

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Introduction**

The financial statements of Houston County Emergency Services District No. 2 (the “District”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies used by the District are discussed below.

**Reporting Entity**

Houston County Emergency Services District No. 2 is a special-purpose government created pursuant to Section 776 of the Texas Health and Safety Code. An election to confirm the creation of the District was held on May 12, 2007 and subsequently confirmed by the Commissioners Court of Houston County, Texas (the Court) on May 22, 2007. The Court authorized the District to levy property taxes not to exceed \$.10 per \$100 of assessed valuation for the purpose of funding fire prevention; suppression and control services; and other emergency services (excluding ambulance services) within its jurisdictional area.

The Court is responsible for the appointment of the governing board of the District; however, the County’s accountability does not extend beyond the board appointment function. The board consists of five members, with two-year staggered terms. The President and Vice President are appointed one year and the remaining three commissioners are appointed the following year.

The District has no employees. The governing board is responsible for managing the day to day financial and operational functions of the District.

For financial reporting purposes, based on standards established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, these financial statements should present the District (the primary government) and its component units. Component units generally are legally separate entities for which the primary government is financially accountable or for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading. The District does not have any blended or discretely presented component units.

**Government-wide and Fund Financial Statements**

GASB Statement No. 34 provides that for special-purpose governments engaged in a single government program, the fund financial statements and the government-wide statements may be combined. The District has elected to present financial statements using this combined method.

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information on all activities of the District as a whole. *Governmental activities* include programs normally supported by taxes, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue sources not properly included with program revenues are reported as

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022**

*general revenues*. As a general rule, the effect of interfund activity is eliminated from the government-wide financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The 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 is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenue when grantor eligibility requirements are 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 are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. Debt service expenditures, both principal and interest, are recorded only when payment is due.

Major governmental fund revenues susceptible to accrual include property taxes and investment income. In general, all other revenue items are considered to be measurable and available only when cash is received.

The District is comprised of one *governmental fund*.

The *fire protection and prevention fund* is a special revenue fund used to account the government's primary operating function. It accounts for all financial resources, except those required to be accounted for in another fund.

The District has no proprietary funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the District's policy to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the District that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

**Applicable Accounting Standards**

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for financial statements of state and local governments. The District has elected to follow all pronouncements of GASB.

**Assets, Liabilities, and Net Position or Fund Balance**

**Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand; demand deposits; certificates of deposit; and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less and are stated at fair value.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022**

Certificates of deposit consist of deposits with original maturities greater than three months. Certificates of deposit are recorded at cost, which approximates market value.

The District is required by the Public Funds Collateral Act (Government Code, chapter 2257) to maintain security for all deposits of funds that exceed coverage provided by the Federal Deposit Insurance Corporation (“FDIC”). As of the balance sheet date, the District’s cash deposits were fully collateralized by securities pledged by the depository banks. Based on audit procedures conducted in conjunction with the audit of the basic financial statements, the District appears to have complied with the requirements of the Public Funds Collateral Act.

The District is required by the Public Funds Investment Act (Government Code, chapter 2256) (the “Act”) to adopt, implement, and publicize a written investment policy which primarily emphasizes safety of principal and liquidity, and addresses investment diversification, yield, and maturity. Additionally, the policy must address the quality and capability of investment management and include the types of investments in which the entity may invest its funds, as well as the maximum allowable stated maturity of any individual investment, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio of pooled fund groups, and bid requirements for certificates of deposit.

The District is authorized to invest in financial instruments, as authorized by the Act, including:

- U.S. Treasury securities which have a liquid market; direct obligations of the State of Texas, and other obligations that are guaranteed by the State of Texas or United States of America;
- obligations of states, agencies, counties, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent;
- fully insured or collateralized certificates of deposit at commercial banks;
- repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement;
- joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law (the pool must be continuously rated no lower than “AAA” or “AAA-m” by at least one nationally recognized rating service).

The District did not have any investments during the year.

The Act also requires an annual audit of investment practices. Audit procedures conducted in conjunction with the audit of the financial statements disclosed that the District did not adhere with the Act in regard to appointing an investment officer or reviewing its investment policy during the current fiscal year.

**Fair Value of Financial Instruments**

The District evaluates the fair value of its non-investment financial instruments based on the current interest rate environment and current pricing of debt instruments with comparable terms. The carrying value of all non-investment financial instruments, including debt, is considered to approximate fair value.

**Receivables/Property taxes**

The District provides an allowance for delinquent property taxes receivable. All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is calculated using a 95% assessment collection rate.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
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Property taxes are levied by October 1 and are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

**Capital Assets and Depreciation**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The District uses Internal Revenue Service guidelines to estimate useful lives. The following estimated useful lives are used:

Buildings and improvements	40 years
Fire trucks and ambulances	10 - 20 years
Furniture and equipment	3 - 7 years

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue – property taxes, is reported only on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in the year incurred.

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Position and Fund Balance**

In the government-wide financial statements, the difference between the District’s total assets and total liabilities represents net position. Net position is displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. At September 30, 2022, restricted net position consists of amounts reserved for debt service. Unrestricted net position represents the net assets available for future operations.

In the governmental fund financial statements, fund balance is classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form (such

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
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as inventories and prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes due to constraints imposed on resources either (a) externally by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Commissioners – the government’s highest level of decision-making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Commissioners.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all other spendable amounts.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgets and Budgetary Process**

An annual budget is prepared and adopted by the District’s Board of Commissioners. The budget is prepared on the modified cash basis. GAAP requires that all general and major special revenue funds be budgeted and presented separately in financial statements of governmental entities. The budget is amended, if necessary, during the year. All appropriations lapse at the end of each fiscal year. There were no budget amendments during the year.

The District does not employ encumbrance accounting.

**DETAILED NOTES ON ALL FUNDS**

**Deposits**

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District’s policy requires funds on deposit at depository banks to be collateralized to the extent that the deposits exceed FDIC coverage. As of September 30, 2022, the District’s cash deposits with depository banks totaled \$506,852. All deposits were collateralized by securities pledged by the depository banks with total collateral value of \$726,222, in addition to FDIC coverage.

Cash is reported at fair value. The District had no investments at any time during the fiscal year.

**Property Tax Receivables**

The District’s tax rate on October 1, 2021 was \$.07382 per \$100 of assessed valuation, with \$.06091 allocated to maintenance and operation and \$.01291 allocated to interest and sinking. The total ad valorem tax levied at that time was \$774,938.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
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During the fiscal year, \$766,297 in current and/or delinquent taxes were collected. Of that total, \$631,153 were for maintenance and operation and \$135,144 were for interest and sinking. Net taxes receivable at September 30, 2022 were \$31,904.

The tax assessment and collections for the year ended September 30, 2022 are summarized below:

	<u>Ad Valorem</u>	<u>Rendition</u>	<u>Totals</u>
2021 Assessed property values	\$ 1,049,686,140	\$ -	\$ 1,049,686,140
Delinquent taxes receivable at September 30, 2021	\$ 76,343	\$ 148	\$ 76,491
Tax levy, October 1, 2021	<u>774,938</u>	<u>629</u>	<u>775,567</u>
	851,281	777	852,058
Less collections	(765,724)	(573)	(766,297)
Less supplements, adjustments and discounts	<u>435</u>	<u>(2)</u>	<u>433</u>
Delinquent taxes receivable at September 30, 2022	85,992	202	86,194
Less allowance for uncollectibles	<u>(54,246)</u>	<u>(44)</u>	<u>(54,290)</u>
Net taxes receivable at September 30, 2022	<u>\$ 31,746</u>	<u>\$ 158</u>	<u>\$ 31,904</u>

In August 2022, the District's Board adopted a tax rate of \$.068367 per \$100 of assessed valuation for the 2022 tax year, with \$.056134 allocated to maintenance and operation and \$.012233 allocated for interest and sinking. The total tax levied on October 1, 2022 was \$847,853.

The District has contracted with the Houston County Tax Assessor-Collector's office for the billing and collection of taxes. The agreement provides for a commission of 5% of net monthly collections and an additional 4.3% of delinquent taxes collected which is withheld by the Tax Assessor-Collector's office.

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**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022**

**Capital Assets**

Capital asset activity for the District for the year ended September 30, 2022 was as follows:

	<u>Balance</u> <u>09/30/2021</u>	<u>Additions</u>	<u>Placed in</u> <u>Service</u>	<u>Balance</u> <u>09/30/2022</u>
Capital assets, not being depreciated				
Land	\$ 69,454	\$ -	\$ -	\$ 69,454
Construction in progress	<u>86,236</u>	<u>2,225</u>	<u>(86,236)</u>	<u>2,225</u>
Total not being depreciated	<u>155,690</u>	<u>2,225</u>	<u>(86,236)</u>	<u>71,679</u>
Capital assets, being depreciated				
Buildings and improvements	510,011	74,673	-	584,684
Furniture and equipment	2,624	-	-	2,624
Communication equipment	20,253	6,035	-	26,288
Fire vehicles and equipment	<u>1,652,578</u>	<u>179,154</u>	<u>-</u>	<u>1,831,732</u>
Total being depreciated	<u>2,185,466</u>	<u>259,862</u>	<u>-</u>	<u>2,445,328</u>
Less accumulated depreciation:				
Buildings and improvements	(108,323)	(14,342)	-	(122,665)
Furniture and equipment	(2,624)	-	-	(2,624)
Communication equipment	(20,253)	(718)	-	(20,971)
Fire vehicles and equipment	<u>(635,705)</u>	<u>(109,932)</u>	<u>-</u>	<u>(745,637)</u>
Total accumulated depreciation	<u>(766,905)</u>	<u>(124,992)</u>	<u>-</u>	<u>(891,897)</u>
Total being depreciated, net	<u>1,418,561</u>	<u>134,870</u>	<u>-</u>	<u>1,553,431</u>
Total capital assets, net	<u>\$ 1,574,251</u>	<u>\$ 137,095</u>	<u>\$ (86,236)</u>	\$ 1,625,110
				Less associated debt <u>(393,845)</u>
				Invested in capital assets, net of related debt <u>\$ 1,231,265</u>

Depreciation expense was charged to the following functions/programs of governmental activities as follows:

General government	\$ -
Fire	<u>124,933</u>
Total	<u>\$ 124,993</u>

**Long-term Debt**

Long-term debt activity for the year ended September 30, 2022 was as follows:

	<u>Balance</u> <u>09/30/2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>09/30/2022</u>	<u>Due Within</u> <u>One Year</u>
Notes payable –					
Prosperity Bank	\$ 284,808	\$ 80,000	\$ (56,047)	\$ 308,761	\$ 56,587
Community First	<u>167,464</u>	<u>-</u>	<u>(82,380)</u>	<u>85,084</u>	<u>85,085</u>
Total long-term debt	<u>\$ 452,272</u>	<u>\$ 80,000</u>	<u>\$ (138,427)</u>	<u>\$ 393,845</u>	<u>\$ 141,672</u>

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022**

Interest expense of \$14,257 was incurred on these notes during the current year.

The annual debt service requirements to maturity for all long-term debt are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 141,672	\$ 15,740
2024	82,167	12,352
2025	35,803	7,887
2026	19,844	6,479
2027	20,792	5,531
2028-2031	<u>93,567</u>	<u>11,693</u>
Total	<u>\$ 393,845</u>	<u>\$ 59,682</u>

Notes payable at September 30, 2022, are comprised of the following:

*Note Payable to Prosperity Bank – Austonio and Latexo Stations.* The outstanding balance of the building note payable of \$350,000 to Prosperity Bank, dated September 26, 2011. Interest on the note accrues at 4.125% for the first four annual payments and 4.680% for the 5<sup>th</sup> through 9<sup>th</sup> payments. Interest rates may be adjusted on the 5<sup>th</sup>, 10<sup>th</sup>, and 15<sup>th</sup> payments. Annual installments of principal and interest are due each November 15, currently set at \$26,323. The note is collateralized by the District’s ad valorem tax revenue and matures on November 15, 2030.

*Lease Purchase Payable to Community First National Bank – Latexo truck.* In fiscal year 2018, the District executed a master equipment lease purchase agreement with Community First National Bank dated November 11, 2017 in the amount of \$249,755 to purchase a new commercial pumper. The lease purchase bears interest at 2.85% annually. It requires five annual payments of \$54,308, including principal and interest. The note is collateralized by the pumper which it serves to finance and matures November 11, 2022.

*Lease Purchase Payable to Community First National Bank – Lovelady truck.* In fiscal year 2018, the District executed a master equipment lease purchase agreement with Community First National Bank dated May 11, 2018 in the amount of \$151,000 to purchase a new brush fighter truck. The lease purchase bears interest at 3.99% annually. It requires five annual payments of \$33,573, including principal and interest. The note is collateralized by truck which it serves to finance and matured February 1, 2023.

*Note Payable to Prosperity Bank – Crockett truck.* On August 4, 2020, the District executed a promissory note agreement with Prosperity Bank in the amount of \$100,000 to purchase a new rescue truck. The interest rate on the note payable is 2.87%. It requires five annual payments of \$21,409, including principal and interest. The note is collateralized by the truck which it serves to finance and matures July 1, 2025.

*Note Payable to Prosperity Bank – Pennington brush truck.* On October 1, 2021, the District executed a promissory note agreement with Prosperity Bank in the amount of \$80,000 to purchase a new brush truck. The interest rate on the note payable is 3.49%. It requires four annual payments of \$21,799, including principal and interest. The note is collateralized with a 2021 Dodge Ram 3500. The note matures September 30, 2025.

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022**

**OTHER INFORMATION**

**Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District provides insurance coverage for each of those risks of loss through its general liability, umbrella, and directors and officers policies. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

**Subsequent Events**

Management has evaluated subsequent events through February 7, 2023, the date when the financial statements were available to be issued.

**Required Supplementary Information  
(unaudited)**

**HOUSTON COUNTY EMERGENCY SERVICES DISTRICT NO. 2**  
**SCHEDULE OF GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	Original Budget	Final Appropriated Budget	Actual Amounts	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ 736,134	\$ 736,134	\$ 789,192	\$ 53,058
Investment income	1,000	1,000	897	(103)
Other revenue	-	-	1,561	1,561
Total revenues	<u>737,134</u>	<u>737,134</u>	<u>791,650</u>	<u>54,516</u>
<b>EXPENDITURES</b>				
Provider service payments - budget	465,100	465,100	465,100	-
Provider service payments - contingency	19,740	19,740	-	19,740
Tax assessor-collector fees	40,681	40,681	40,012	669
Appraisal district fees	23,000	23,000	21,527	1,473
Legal and accounting	15,000	15,000	5,520	9,480
Insurance	20,000	20,000	18,963	1,037
Equipment repairs	10,000	10,000	11,731	(1,731)
Miscellaneous administrative expenses	8,000	8,000	12,750	(4,750)
Capital outlay	-	-	175,851	(175,851)
Debt service				
Principal and interest	<u>135,613</u>	<u>135,613</u>	<u>156,078</u>	<u>(20,465)</u>
Total expenditures	<u>737,134</u>	<u>737,134</u>	<u>907,532</u>	<u>(170,398)</u>
<b>EXCESS (DEFICIENCY) OF</b>				
<b>REVENUES OVER EXPENDITURES</b>	-	-	(115,882)	(115,882)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	-	-	-
Proceeds from issuance of long-term debt	<u>-</u>	<u>-</u>	<u>80,000</u>	<u>80,000</u>
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>80,000</u>	<u>80,000</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>				
<b>OVER EXPENDITURES AND OTHER USES</b>	-	-	(35,882)	(35,882)
FUND BALANCE - BEGINNING OF YEAR	<u>556,470</u>	<u>556,470</u>	<u>556,470</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 556,470</u>	<u>\$ 556,470</u>	<u>\$ 520,588</u>	<u>\$ (35,882)</u>

See Independent Auditors' Report.

**COMPLIANCE SECTION**



**INDEPENDENT AUDITORS' 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***

To the Board of Commissioners  
Houston County Emergency Services District No. 2

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 financial statements of the governmental activities and the major governmental fund of Houston County Emergency Services District No. 2 (the "District"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 7, 2023.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 by those charged with governance.

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

**INDEPENDENT AUDITORS' 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**

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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.

*Todd, Hamaker & Johnson, LLP*

Todd, Hamaker & Johnson, LLP  
Lufkin, Texas

February 7, 2023