

**HARDIN COUNTY EMERGENCY
SERVICE DISTRICT #2
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDING
DECEMBER 31, 2019**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	14
Notes to the Financial Statements	15
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	22

MITCHELL T. FONTENOTE

CERTIFIED PUBLIC ACCOUNTANT

May 20, 2020

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hardin County Emergency Service District #2
P.O. Box 8566
Lumberton, TX 77657

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Hardin County Emergency Service District #2, as of and for the year ended December 31, 2019, 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 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 the aggregate remaining fund information of the Hardin County Emergency Service District #2, as of December 31, 2019, 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.

2428 NALL STREET • PORT NECHES, TEXAS 77651
PHONE (409) 722-6300 • FAX (409) 722-6301
MITCHELL@MTFCPAS.COM

Other Matters

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 3–8 and 22 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.

Mitchell T. Fontenote CPA, Inc.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

This section of Hardin County Emergency Service District #2’s annual financial report presents our discussion and analysis of the District’s financial performance during the calendar year ended December 31, 2019. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District’s total combined net position was \$7,475,718 at December 31, 2019.
- During the year, the District’s expenses were \$75,474 less than the \$2,503,012 generated in taxes, other revenues for governmental activities.
- The general fund reported a fund balance this year of \$4.24 million. Of this, \$892,200 is assigned by the District, the remaining \$3,352,211 is for unrestricted use by the District.

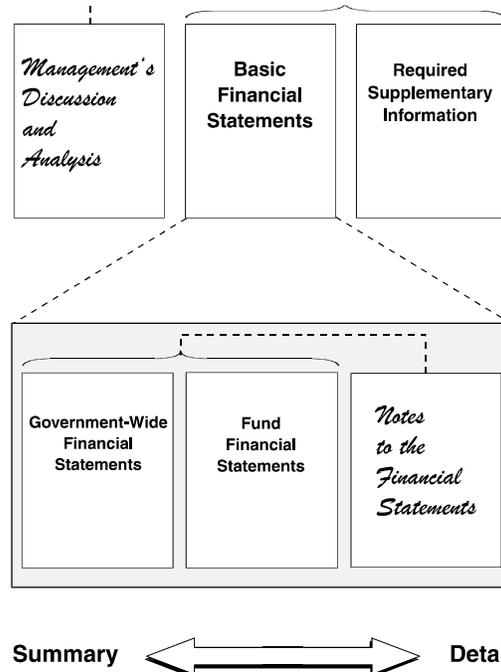
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District’s operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the District’s Annual Financial Report



Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. 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. The two government-wide statements report the District’s net position and how they have changed. Net position—the difference between the District’s assets and liabilities—is one way to measure the District’s financial health or *position*.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as fire and emergency care. Property taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Commissioners can establish other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was \$7,529,221 at December 31, 2019. (See Table A-1).

Table A-1
Hardin County Emergency Service District #2
Net Position

	<u>2019</u>	<u>2018</u>
Current and Other Assets	\$ 4,539,792	\$ 5,010,527
Capital Assets	<u>3,542,775</u>	<u>3,592,751</u>
Total Assets	<u>8,082,567</u>	<u>8,603,278</u>
Current Liabilities	\$ 10,335	\$ 8,919
Long-term Liabilities	<u>596,514</u>	<u>989,664</u>
Total Liabilities	<u>606,849</u>	<u>998,583</u>
Net Position:		
Invested in Capital Assets Net of Related Debt	2,935,926	2,594,168
Assigned	892,200	892,200
Unrestricted	<u>3,647,592</u>	<u>4,118,327</u>
Total Net Position	<u>\$ 7,475,718</u>	<u>\$ 7,604,695</u>

Approximately \$2.99 million of the District's net position represent investments in capital assets net of related debt. The \$3,647,592 of unrestricted net position represents resources available to fund the programs of the District next year.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Changes in Net Position. The District's total revenues were \$3,010,194. Property taxes make up 46 percent of total revenues.

The total cost of all programs and services was \$3,085,668; all costs are for fire and emergency medical services.

Table A-2
Hardin County Emergency Service District #2
Changes in Net Position

	<u>2019</u>	<u>2018</u>
General Revenues:		
Maintenance and Operations Taxes	\$ 1,383,309	\$ 835,193
Sales Tax Revenue	821,992	770,403
Grants and Contributions - Not Restricted	43,997	357,750
Investment Earnings	3,782	2,058
EMS Collections	491,855	512,137
Fire Inspection	15,327	15,842
Miscellaneous	<u>249,932</u>	<u>98,791</u>
Total Revenue	<u>3,010,194</u>	<u>2,592,174</u>
Expenses:		
General Government		
Buildings and Grounds	276,988	207,707
Insurance	335,504	320,697
Salaries and Payroll	1,927,865	1,729,584
Administrative	394,322	262,018
Fire Department Expense	29,381	317,926
Emergency Management Services	57,447	163,994
Hardin County Appraisal District Fee	35,980	62,632
Interest	<u>28,181</u>	<u>36,833</u>
Total Expenses	<u>3,085,668</u>	<u>3,101,391</u>
Increase (Decrease) in Net Assets	(75,474)	(509,217)
Net Position, Beginning	7,604,695	8,667,495
Period Period Adjustment	<u>(53,503)</u>	<u>(553,583)</u>
Net Position, Restated	<u>7,551,192</u>	<u>8,113,912</u>
Net Position, Ending	<u>\$ 7,475,718</u>	<u>\$ 7,604,695</u>

Governmental Activities

- Property tax rates were set at \$.10 per \$100 valuation.
- For taxes due on January 31, 2020 the District has maintained the rate to \$.10 per \$100 due to the continued increase in population in the Hardin County Emergency Service District #2.
- The cost of all *governmental* activities this year was \$3,085,668.
- The amount that our taxpayers paid for these activities through property taxes was \$1,383,309.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

Table A-3
Hardin County Emergency Service District #2
Net Cost of Selected District Functions

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Administrative	\$ 394,322	\$ 262,018	\$ 394,322	\$ 262,018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District continues to operate from a very conservative viewpoint due to a variety of issues. This is done to meet the emergency needs of the community. The District continues its deliberate and steady rehabilitation of old facilities and equipment and the purchase of new facilities and equipment to meet emergency needs.

General Fund Budgetary Highlights

On occasion, the District amends the budget, primarily due to increased costs associated with facilities upgrades. The fund balance, however, remains strong and sound.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the District had invested \$3.54 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a slight decrease from last year.

Table A-4
Hardin County Emergency Service District #2
Capital Assets

	2019	2018
Land	\$ 177,150	\$ 177,150
Vehicles	3,002,175	2,876,842
Equipment	612,460	553,578
Buildings and Improvements	3,040,820	2,928,339
Total Capital Assets	6,832,605	6,535,909
Less Accumulated Depreciation:		
Vehicles	(1,937,946)	(1,747,005)
Equipment	(422,582)	(349,231)
Buildings and Improvements	(929,302)	(846,922)
Total Accumulated Depreciation	(3,289,830)	(2,943,158)
Net Capital Assets	\$ 3,542,775	\$ 3,592,751

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Long Term Debt

At year-end the District had \$543,011 in capital leases outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-5
Hardin County Emergency Service District #2
Outstanding Debt

	<u>2019</u>	<u>2018</u>
Governmental activities:		
Notes Payable	\$ -	\$ 345,000
Leases Payables	596,514	698,167
Total Capital Assets	<u>\$ 596,514</u>	<u>\$ 1,043,167</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The District projects to stay the course on projects and revenue and expenditure projections at the current time.
- Continued growth in the surrounding communities has increased tax revenue projections.

These indicators were taken into account when adopting the general fund budget for 2020. Amounts available for appropriation in the general fund budget are up slightly due to increased revenues. Any expected increases in revenue from property taxes are allocated to increases in funding levels for facilities and equipment needs. Also, amounts are allocated for training of fire and EMS personnel expenditures continue to rise due the expanding community needs. Currently, the District is able to fill all of its financial obligations from personnel to facilities and equipment.

If all revenue and expenditure estimates are realized in 2020, the District's fund balance is expected to continue to stay the same by the close of 2020.

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 demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Services Department.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

STATEMENT OF NET POSITION

DECEMBER 31, 2019

	Governmental Activites
ASSETS:	
Cash and Cash Equivalents	\$ 3,405,010
Property Taxes Receivable (Net)	648,622
EMS Receivable (Net)	436,699
Other Assets	49,461
Capital Assets:	
Land	177,150
Buildings and improvements, Net	2,111,518
Equipment, Net	189,878
Vehides, Net	1,064,229
Total Assets	<u>8,082,567</u>
LIABILITIES:	
Accrued Liabilities	10,335
Noncurrent Liabilities:	
Due Within One Year	
Lease Payments	101,671
Due in more Than One Year	
Lease Payments	494,843
Total Liabilities	<u>606,849</u>
NET POSITION:	
Invested in Capital Assets, Net of Related Debt	2,935,926
Reserved	892,200
Unrestricted	3,647,592
Total Net Position	<u>\$ 7,475,718</u>

The accompanying notes are an integral part of this financial statement.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General Government				
Buildings and Grounds	\$ 276,988	\$ -	\$ -	\$ (276,988)
Insurance	335,504	-	-	(335,504)
Salaries and Payroll	1,927,865	-	-	(1,927,865)
Administrative	394,322	-	-	(394,322)
Fire Department Expense	29,381	15,327	-	(14,054)
EMS Expense	57,447	491,855	-	434,408
Hardin County Appraisal District Fee	35,980	-	-	(35,980)
Interest	28,181	-	-	(28,181)
Total Governmental Activities	<u>\$ 3,085,668</u>	<u>\$ 507,182</u>	<u>\$ -</u>	<u>\$ (2,578,486)</u>
General Revenues:				
Property Taxes, Levied for General Purposes				1,383,309
Sales Tax Revenue				821,992
Investment Earnings				3,782
Grants and Contributions Not Restricted to Specific Programs				43,997
Miscellaneous				249,932
Total General Revenues				<u>2,503,012</u>
Change in Net Position				(75,474)
Net Position - Beginning				<u>7,604,695</u>
Prior Period Adjustment				<u>(53,503)</u>
Net Position - Ending				<u>\$ 7,475,718</u>

The accompanying notes are an integral part of this financial statement.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2**BALANCE SHEET – GOVERNMENTAL FUNDS****DECEMBER 31, 2019**

	General Fund	Total Governmental Funds
<u>Assets:</u>		
Cash on Deposit	\$ 3,405,010	\$ 3,405,010
Taxes receivable	720,691	720,691
Less: Allowance for uncollectible taxes	(72,069)	(72,069)
EMS receivable	491,611	491,611
Less: Allowance for uncollectible accounts	(54,912)	(54,912)
Other Assets	49,461	49,461
Total assets	<u>4,539,792</u>	<u>4,539,792</u>
<u>Liabilities and Fund Balance:</u>		
Accrued liabilities	<u>10,335</u>	<u>10,335</u>
Total liabilities	<u>10,335</u>	<u>10,335</u>
<u>Deferred Inflows</u>		
Deferred Property Tax	<u>285,046</u>	<u>285,046</u>
Total Deferred Inflows	<u>285,046</u>	<u>285,046</u>
Assigned		
Apparatus Sinking	120,000	120,000
Contingency	50,000	50,000
Emergency	200,000	200,000
Grant Funding	100,000	100,000
Ladder Truck	40,000	40,000
Payroll	150,000	150,000
Grant Funding	232,200	232,200
Total Assigned	<u>892,200</u>	<u>892,200</u>
Unassigned	<u>3,352,211</u>	<u>3,352,211</u>
Total fund balance	<u>4,244,411</u>	<u>4,244,411</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 4,539,792</u>	<u>\$ 4,539,792</u>

The accompanying notes are an integral part of this financial statement.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019

Total Fund Balance - Governmental Funds Balance Sheet	\$	4,244,411
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital Assets Used in Governmental Activities are not Reported in the Funds		3,542,775
Payables for Notes Which are not Due in the Current Period are not Reported in the Funds.		(596,514)
		<hr/>
Net Assets of Governmental Activities - Statement of Net Assets	\$	<u>7,475,718</u>

The accompanying notes are an integral part of this financial statement.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	General Fund	Total Governmental Fund Types
<u>Revenues:</u>		
Ad valorem taxes, penalties and interest	\$ 1,144,150	\$ 1,144,150
Sales Tax Revenue	821,992	821,992
Interest income	3,782	3,782
EMS Collections	625,601	625,601
Fire Inspection	15,327	15,327
EMS Grant	43,997	43,997
Miscellaneous	116,186	116,186
Total revenues	<u>2,771,035</u>	<u>2,771,035</u>
<u>Deduct Expenditures:</u>		
Operations:		
Buildings and Grounds	245,582	245,582
Insurance	297,463	297,463
Salaries and Payroll	1,709,275	1,709,275
Administrative	349,612	349,612
Fire Dept Expense	26,050	26,050
EMS expense	50,933	50,933
Hardin County Appraisal District fee	31,900	31,900
Capital outlay	296,697	296,697
Debt Service		
Principal	345,000	345,000
Lease	101,652	101,652
Interest	28,181	28,181
Total operations	<u>3,482,345</u>	<u>3,482,345</u>
Excess of revenues over (under) expenditures	(711,310)	(711,310)
Net Changes in Fund Balances	(711,310)	(711,310)
<u>Fund Balances:</u>		
Beginning of year	<u>4,955,721</u>	<u>4,955,721</u>
End of year	<u>\$ 4,244,411</u>	<u>\$ 4,244,411</u>

The accompanying notes are an integral part of this financial statement.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENT FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Total Governmental Funds	\$	(711,310)
Amounts Reported for Governmental Activities in the Statement of Activities ("SOA") are Different Because:		
Capital Outlays are not Reported as Expenses in the SOA		296,697
The Depreciation of Capital Assets Used in Governmental Activities is not Reported in the Funds.		(346,672)
Certain Property Tax Revenues are Deferred in the Funds. This is the Change in These Amounts This Year.		239,159
Repayment of Loan Principal is an Expenditure in the Funds but not as an Expense in the SOA.		446,652
		<hr/>
Change in Net Assets of Governmental Activities - Statement of Activities	\$	<u>(75,474)</u>

The accompanying notes are an integral part of this financial statement.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENT FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hardin County Emergency Service District #2 (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental and financial reporting principles. The most significant accounting and reporting policies of the District are described in the following notes to the financial statements.

A. Reporting Entity

The Hardin County Emergency Service District #2 was organized under the provisions of Section 48-e, Article III of the Constitution of the State of Texas for the protection of life and health as provided for under this Act.

Members of the Board have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. Therefore, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The accounting policies of the Emergency Service District #2 conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies.

B. Basis of Presentation – Basis of Accounting

1. Basis of Presentation

- a. Government-Wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

- b. Fund Financial Statements: The fund financial statements provide information about the District’s funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

- (1) General Fund: This is the District’s primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENT FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation – Basis of Accounting Continued

2. Measurement Focus, Basis of Accounting

- a. **Government-Wide and Fiduciary Fund Financial Statements:** These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

- b. **Governmental Fund Financial Statements:** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.
When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

C. Financial Statement Amounts

1. **Property Taxes:** Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes 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 the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENT FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Amounts Continued

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

2. **Capital Assets:** Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

3. **Receivable and Payable Balances:** The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.
4. **Use of Estimates:** The preparation of financial statements in conformity with GAAP requires the use of management's estimates.
5. **Budgets:** The official District budget was prepared for adoption for all Governmental Fund Types by the Commissioners.
6. **Encumbrances:** Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at December 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at year-end.
7. **Inventory:** The District records purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENT FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 2 – DEPOSITS, SECURITIES AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits: The District's cash deposits at December 31, 2019 and during the year ended December 31, 2019, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Investments: The District is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The District's had no investments at December 31, 2019.

Investment Accounting Policy: The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Non-negotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENT FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 3 – EMS RECEIVABLES

The District recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized as EMS expense.

NOTE 4 – FIXED ASSETS

The following is a summary of changes in the fixed assets for the year ended December 31, 2019:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital Assets not Being Depreciated:</i>				
Land	\$ 177,150	\$ -	\$ -	\$ 177,150
Total Capital Assets Not Depreciated	<u>177,150</u>	<u>-</u>	<u>-</u>	<u>177,150</u>
<i>Capital Assets Being Depreciated:</i>				
Vehicles	2,876,842	125,333	-	3,002,175
Equipment	553,578	58,882	-	612,460
Buildings and Improvements	<u>2,928,339</u>	<u>112,481</u>	<u>-</u>	<u>3,040,820</u>
Total Capital Assets Being Depreciated	<u>6,358,759</u>	<u>296,696</u>	<u>-</u>	<u>6,655,455</u>
Less Accumulated Depreciation For:				
Vehicles	(1,747,005)	(190,941)	-	(1,937,946)
Equipment	(349,231)	(73,351)	-	(422,582)
Buildings and Improvements	<u>(846,922)</u>	<u>(82,380)</u>	<u>-</u>	<u>(929,302)</u>
Total Accumulated Depreciation	<u>(2,943,158)</u>	<u>(346,672)</u>	<u>-</u>	<u>(3,289,830)</u>
Total Capital Assets Being Depreciated, Net	<u>3,415,601</u>	<u>(49,976)</u>	<u>-</u>	<u>3,365,625</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,592,751</u>	<u>\$ (49,976)</u>	<u>\$ -</u>	<u>\$ 3,542,775</u>

Depreciation charged to expenses categories as follows:

Maintenance and repairs	\$ 31,406
Insurance	38,041
Salaries and Payroll	218,590
Administrative	44,710
Fire Dept Expense	3,331
EMS expense	6,514
Hardin County Appraisal District fee	<u>4,080</u>
Total	<u>\$ 346,672</u>

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENT FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 5 – LONG-TERM OBLIGATION

The District purchased a new Tanker/Pumper at the beginning of 2019. The total purchase price was \$755,250. The District signed a 7-year capital lease payable in semi-annual installments in the amount of \$59,651.37, including principal and interest at 3.07%.

Changes in long-term obligations for the period ended December 31, 2019, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Lease	698,167	-	101,653	596,514	101,671
Notes	345,000	-	345,000	-	-
	<u>\$ 1,043,167</u>	<u>\$ -</u>	<u>\$ 446,653</u>	<u>\$ 596,514</u>	<u>\$ 101,671</u>

Future lease and note payable payments are as follows:

	Principal	Interest	Total
2020	101,671	17,632	119,303
2021	104,816	14,486	119,302
2022	108,059	11,244	119,303
2023	111,402	7,901	119,303
2024	114,848	4,455	119,303
2025	55,718	3,934	59,652
	<u>\$ 596,514</u>	<u>\$ 59,652</u>	<u>\$ 656,166</u>

NOTE 6 – FUND BALANCE DISCLOSURE

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- a. Non-Spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The District has \$0 classified as Non-Spendable.
- b. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The District has \$0 classified as Restricted.
- c. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year end. The District has \$0 classified as Committed.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENT FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 6 – FUND BALANCE DISCLOSURE (CONTINUED)

- d. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Director. The District has \$892,200 classified as Assigned.
- e. Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds. The District has \$3,647,592 classified as Unassigned.

The appointed board of directors, for the entity, has no authority to commit, assign, or restrict fund balances. In some instances a restriction is a result of meeting contractual or otherwise legal requirements, for example debt service requirements contained in the bond covenant.

NOTE 6 – LITIGATION

None.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 20, 2020. No event was discovered that would require disclosure.

HARDIN COUNTY EMERGENCY SERVICE DISTRICT #2**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Beginning Budget	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>				
Ad valorem taxes, penalties and interest	\$ 1,365,658	\$ 1,365,658	1,144,150	\$ (221,508)
Sales Tax Revenue	790,000	790,000	821,992	31,992
IDC Revenue	-	-	-	-
Interest income	-	-	3,782	3,782
EMS Collections	678,480	678,480	625,601	(52,879)
Fire Inspection	20,000	20,000	15,327	(4,673)
Grant	357,750	357,750	43,997	(313,753)
Miscellaneous	-	-	116,186	116,186
Total revenues	<u>3,211,888</u>	<u>3,211,888</u>	<u>2,771,035</u>	<u>(440,853)</u>
<u>Deduct Expenditures:</u>				
Operations:				
Buildings and Grounds	233,346	233,346	245,582	(12,236)
Insurance	278,000	278,000	297,463	(19,463)
Salaries and Payroll	1,826,230	1,826,230	1,709,275	116,955
Administrative	374,284	374,284	349,612	24,672
Fire Dept expense	81,000	81,000	26,050	54,950
EMS expense	97,750	97,750	50,933	46,817
Hardin County Appraisal District fee	34,000	34,000	31,900	2,100
Capital outlay	30,000	30,000	296,697	(266,697)
Debt Service	-	-	-	-
Principal	140,624	140,624	345,000	(204,376)
Lease	200,000	200,000	101,652	98,348
Interest	-	-	28,181	(28,181)
Total operations	<u>3,295,234</u>	<u>3,295,234</u>	<u>3,482,345</u>	<u>(187,111)</u>
Net Changes in Fund Balance	(83,346)	(83,346)	(711,310)	(627,964)
<u>Fund Balances:</u>				
Beginning of year	4,955,721	4,955,721	4,955,721	-
Prior Period Adjustment	-	-	-	-
End of year	<u>\$ 4,872,375</u>	<u>\$ 4,872,375</u>	<u>\$ 4,244,411</u>	<u>\$ (627,964)</u>