

ANNUAL FINANCIAL REPORT

of the

Galveston County Emergency Services District No. 2

For the Year Ended
September 30, 2018

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Galveston County Emergency Services District No. 2

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

The District's 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 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.

Opinion

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 fund of the District as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of Error

As discussed in Note V.E. to the financial statements, beginning net position has been restated to reflect a correction of an accounting error in the 2017 financial statements. Our opinion is not modified with respect to this matter.

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 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.



Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
June 11, 2019

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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Galveston County Emergency Services District No. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2018

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the Galveston County Emergency Services District No. 2 (the "District") for the year ended September 30, 2018. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the District as a whole. These statements include transactions and balances relating to all assets, including capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets and liabilities. The difference between the two is 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. Other non-financial factors, such as the District's property tax base need to be considered to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

Galveston County Emergency Services District No. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2018

The Statement of Net Position and the Statement of Activities present the District using one class of activity:

1. Governmental Activities – The District's emergency service operations are reported here.

The government-wide financial statements can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the District. They are usually segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The District's operations are reported using governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be a major fund. The general fund is used to report the District's activities.

The District adopts an annual unappropriated budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

Galveston County Emergency Services District No. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2018

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found after the financial statements within this report.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund. The RSI can be found after the notes to the financial statements within this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. For the District, assets exceed liabilities by \$1,877,769 as of year end. Unrestricted net position, \$1,411,174, may be used to meet the District's ongoing emergency service operations.

Galveston County Emergency Services District No. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2018

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

		Governmental Activities	
		2018	2017
Current and other assets		\$ 1,532,810	\$ 1,255,744
Capital assets, net		466,595	494,064
	Total Assets	1,999,405	1,749,808
Current liabilities		121,636	267,236
Long-term liabilities		-	145,547
	Total Liabilities	121,636	412,783
Net Position:			
Net investment in capital assets		466,595	278,586
Unrestricted		1,411,174	1,058,439
	Total Net Position	\$ 1,877,769	\$ 1,337,025

The overall condition of the District experienced increases in property taxes due to continued growth within in the District. Current assets represent property, sales tax, and grant receivables as well as cash, which increased by \$277,066 or 22%. This increase is primarily due to an increase in cash, which is a result of the positive change in net position of \$540,744 during the year. Capital assets increased by \$27,469 due to the purchase of equipment netted with depreciation taken on assets. Current liabilities represent amounts owed for expenditures related to current year budgeted contract volunteer fire department ("VFD") and emergency medical services ("EMS"). Long-term liabilities decreased by \$145,547 from the prior year due to payoff of the note payable issued to finance the purchase of the two ambulances.

Galveston County Emergency Services District No. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2018

Statement of Activities:

The following table provides a summary of the District's changes in net position:

	Governmental Activities	
	2018	2017
Revenues		
General revenues:		
Property taxes	\$ 993,796	\$ 855,539
Sales taxes	1,245,042	1,015,741
Intergovernmental revenue	-	150,000
Other revenue	7,447	28,850
Total Revenues	<u>2,246,285</u>	<u>2,050,130</u>
Expenses		
Public safety	1,700,263	1,826,103
Interest and fiscal charges	5,278	7,061
Total Expenses	<u>3,959,273</u>	<u>3,912,144</u>
Change in Net Position	540,744	216,966
Beginning Net Position	<u>1,337,025</u>	<u>1,120,059</u>
Ending Net Position	<u>\$ 1,877,769</u>	<u>\$ 1,337,025</u>

The District reported an increase in net position of \$540,744. Property taxes and sales showed the most significant increases of \$138,257 and \$229,301, respectively. The increase in property taxes is due to an increase in property value within the District as well as an increased property tax rate. The increase in sales tax is due to continued economic growth within the District. In the prior year the District received intergovernmental grant revenue of \$150,000 Galveston County to aid with annual fire and EMS operations which was not renewed during the current year. The District's largest current year expense relates to contracted VFD and EMS operations totaling \$1,465,013. The approved budgets for all contracted entities were higher than in the previous year.

Galveston County Emergency Services District No. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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. In particular, the unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the year.

The District's general fund reflects an unassigned fund balance of \$748,225. There was an increase in fund balance of \$341,422 over the prior year. The most significant change in the general fund when compared to the prior year relates to the increase in sales tax which totaled \$229,301 over the prior year. Property tax also increased by \$166,060 due to higher assessed values and property tax rate. In addition, fire department and EMS expenditures increased by \$38,173, which is a direct result of the increased fire protection and prevention services charges to the District as relating to the agreements with Crystal Beach, High Island, and Port Bolivar Volunteer Fire Departments, and PEMSI.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than final budgeted revenues by \$365,066 for the year. General fund expenditures were under the final budget by \$345,830 for a total positive budget variance of \$710,896 for the year. This positive variance is primarily due to actual sales tax revenue being more than budgeted.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District is located in Galveston County, Texas. The District anticipates an increase in the overall property values in the county resulting in an increase in the assessed valuation of the District. The overall economic recovery and continued development within the District will continue to fuel increased sales tax receipts in the coming year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be directed to George Strong, District Treasurer, P.O. Box 1698, Crystal Beach, Texas 77560.

FINANCIAL STATEMENTS

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Galveston County Emergency Services District No. 2

STATEMENT OF NET POSITION

September 30, 2018

		<u>Governmental Activities</u>
<u>Assets</u>		
Cash		\$ 1,291,443
Taxes receivable		241,367
	Total Current Assets	<u>1,532,810</u>
Capital assets:		
Net depreciable capital assets		466,595
	Total Capital Assets	<u>466,595</u>
	Total Assets	<u>1,999,405</u>
<u>Liabilities</u>		
Accounts payable		121,636
	Total Liabilities	<u>121,636</u>
<u>Net Position</u>		
Net investment in capital assets		466,595
Unrestricted		1,411,174
	Total Net Position	<u><u>\$ 1,877,769</u></u>

See Notes to Financial Statements.

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Galveston County Emergency Services District No. 2

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

	Governmental Activities
<u>Expenses</u>	
Public safety - fire protection and emergency medical services	
General and administrative	\$ 116,348
Fire department and emergency medical services	1,466,605
Depreciation	117,310
Interest	5,278
Total Program Expenses	1,705,541
 <u>General Revenues</u>	
Property taxes	993,796
Sales taxes	1,245,042
Other revenue	7,447
Total General Revenues	2,246,285
Change in Net Position	540,744
Beginning Net Position	1,337,025
Ending Net Position	\$ 1,877,769

See Notes to Financial Statements.

Galveston County Emergency Services District No. 2

BALANCE SHEET

September 30, 2018

	General Fund
<u>Assets</u>	
Cash	\$ 1,291,443
Taxes receivable	241,367
Total Assets	1,532,810
 <u>Liabilities</u>	
Accounts payable	121,636
Total Liabilities	121,636
 <u>Deferred inflows of resources</u>	
Unavailable revenue - property taxes	60,943
Total Deferred Inflows of Resources	60,943
 <u>Fund balance</u>	
Committed	602,006
Unassigned	748,225
Total Fund Balance	1,350,231
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,532,810

See Notes to Financial Statements.

Galveston County

Emergency Services District No. 2

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUND

September 30, 2018

Fund Balances - Total Governmental Funds	\$ 1,350,231
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Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - net depreciable	466,595
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Property taxes receivable	60,943
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Net Position of Governmental Activities	<u>\$ 1,877,769</u>
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See Notes to Financial Statements.

Galveston County Emergency Services District No. 2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended September 30, 2018

		<u>General Fund</u>
Revenues		
Property taxes	\$	984,243
Sales taxes		1,245,042
Other revenue		7,447
Total Revenues		<u>2,236,732</u>
 Expenditures		
General and administrative		69,464
Dues and subscriptions		2,340
Fire department/EMS		1,465,013
Professional and legal fees		42,298
Travel		1,388
Insurance		470
Other		388
Capital outlay		91,433
Debt service		
Principal		215,478
Interest		7,038
Total Expenditures		<u>1,895,310</u>
Net Change in Fund Balance		341,422
Beginning Fund Balance		<u>1,008,809</u>
Ending Fund Balance	\$	<u><u>1,350,231</u></u>

See Notes to Financial Statements.

Galveston County

Emergency Services District No. 2

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

For the Year Ended September 30, 2018

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balance	\$	341,422
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		89,841
Depreciation expense		(117,310)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		9,553
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest		1,760
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on note payable		215,478
Net Change in Net Position	\$	<u>540,744</u>

See Notes to Financial Statements.

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Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements and Reporting Entity

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

Galveston County Emergency Services District No. 2 (the "District") operates under Chapter 775 of V.T.C.A, Health and Safety Code. The District was formed on May 11, 2013 by a vote of the local citizens to support fire protection and emergency medical services for the benefit of the citizens and visitors of Bolivar Peninsula, Galveston County, Texas.

As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. The District has adopted Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Basis of Presentation Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the District as a whole. These statements include all activities of the primary government. Governmental activities are normally supported by taxes and intergovernmental revenues.

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

The Statement of Activities presents a comparison between direct expenses and program revenues of 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. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

The fund financial statements provide information about the government's funds. Separate statements for each fund category are presented.

The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for the operations of the District's emergency service operations and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to property taxes and sales taxes. Expenditures include all costs associated with the daily operations and contractual obligations of the District.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 are reported using the pools' share price.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value

The District has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. 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. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the District.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years.

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 15 years
Furniture and equipment	5 to 10 years
Buildings and improvements	15 to 30 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

7. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing Board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (Board of Commissioners) has by resolution authorized the Treasurer to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Long-Term Obligations

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

11. Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term assets, such as property tax receivable, are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “Revenue in the Statement of Activities that does not provide current financial resources are not reported as revenue in the funds.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

An unappropriated budget is prepared by fund and function. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year. Actual expenditures exceeded budgeted expenditures in the following categories:

Capital outlay \$ 30,933

IV. DETAILED NOTES ON ALL FUNDS

A. Receivables

The following comprise receivable balances of the primary government at year end:

	General
Property taxes	\$ 60,943
Sales tax	180,424
Total	\$ 241,367

B. Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2018:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, being depreciated:				
Vehicles	345,300	-	-	345,300
Equipment	348,889	89,841	-	438,730
Total capital assets being depreciated	694,189	89,841	-	784,030
Less accumulated depreciation				
Vehicles	(110,990)	(49,329)	-	(160,319)
Equipment	(89,135)	(67,981)	-	(157,116)
Total accumulated depreciation	(200,125)	(117,310)	-	(317,435)
Net capital assets being depreciated	494,064	(27,469)	-	466,595
Total Capital Assets	\$ 494,064	\$ (27,469)	\$ -	\$ 466,595

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

C. Long-Term Obligations

The following is a summary of long-term obligations for the year ended September 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds, notes and other payables:					
Notes payable	\$ 215,478	\$ -	\$ (215,478)	\$ -	\$ -
Total Governmental Activities	\$ 215,478	\$ -	\$ (215,478)	\$ -	\$ -
 Long-term liabilities due in more than one year				\$ -	

The District issued a promissory note to finance two ambulances with Government Capital Corporation in the amount of \$349,900 with an interest rate of 2.69%. Payments are due in annual installments in the amount of \$75,719 through 2020. The note is secured by future property tax and other revenues of the District. The District paid the balance in full during the current fiscal year.

V. OTHER INFORMATION

A. 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; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past year.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

Galveston County Emergency Services District No. 2

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

C. Fire Protection and EMS Services

On April 1, 2014, the District entered into agreements with the Crystal Beach, High Island, and Port Bolivar Volunteer Fire Departments as well as the Peninsula Emergency Medical Services, Inc. ("PEMSI") to provide fire protection and prevention services and emergency services to the residents of the District. The District reviews and approves the funding budget for each contracted entity prior to the start of the fiscal year. Amounts paid to each entity under this agreement for the current year totaled, \$25,782, \$67,973, \$38,554, \$1,332,704, respectively. The agreements may be terminated either party upon 90 days written notice.

D. Emergency Fund

The District has established a separate savings account which is reserved for emergencies. As of year end, the account contained \$602,006 and is committed within fund balance.

E. Restatement

The City has restated beginning net position within governmental activities and the general fund due to an accounting error during the prior fiscal year. The restatement of beginning fund balance/net position is as follows:

	Governmental	
	<u>Activities</u>	<u>General</u>
Prior year ending net position/fund balance as reported	\$ 1,349,525	\$ 1,021,309
Correction to grant receivable	(12,500)	(12,500)
Restated beginning net position/fund balance	<u>\$ 1,337,025</u>	<u>\$ 1,008,809</u>

F. Subsequent Events

Subsequent to yearend, the District's Board has agreed to cease funding operations of Peninsula Emergency Medical Services, Inc. ("PEMSI"). PEMSII has begun formal dissolution of the organization and begun transferring assets and operations to the District. Once complete, the District will manage all emergency medical services and assets previously operated by PEMSII.

There were no other material subsequent events through June 11, 2019, the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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Galveston County
Emergency Services District No. 2
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 950,000	\$ 950,000	\$ 984,243	\$ 34,243
Sales taxes	1,000,000	900,000	1,245,042	345,042
Intergovernmental	150,000	-	-	-
Other revenue	20,416	21,666	7,447	(14,219)
Total Revenues	<u>2,120,416</u>	<u>1,871,666</u>	<u>2,236,732</u>	<u>365,066</u>
Expenditures				
Administrative				
General and administrative	118,801	112,201	69,464	42,737
Dues and subscriptions	6,500	6,400	2,340	4,060
Fire department/EMS	1,927,350	1,776,723	1,465,013	311,710
Professional and legal fees	44,000	50,600	42,298	8,302
Travel	7,500	7,500	1,388	6,112
Insurance	2,600	2,700	470	2,230
Other	2,000	2,000	388	1,612
Capital outlay	60,500	60,500	91,433	(30,933) *
Debt Service				
Principal	216,728	215,478	215,478	-
Interest	5,788	7,038	7,038	-
Total Expenditures	<u>2,391,767</u>	<u>2,241,140</u>	<u>1,895,310</u>	<u>345,830</u>
Net Change in Fund Balance	<u>\$ (271,351)</u>	<u>\$ (369,474)</u>	341,422	<u>\$ 710,896</u>
Beginning Fund Balance			<u>1,008,809</u>	
Ending Fund Balance			<u>\$ 1,350,231</u>	

Notes to Required Supplementary Information:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

*Expenditures exceeded appropriations at the legal level of control.

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