

*ANNUAL FINANCIAL REPORT*

of the

**Harris County Emergency Services District No. 24**

For the Year Ended  
December 31, 2018

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# Harris County Emergency Services District No. 24

## TABLE OF CONTENTS

For the Year Ended December 31, 2018

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	5
<b><u>FINANCIAL STATEMENTS</u></b>	
Statement of Net Position	14
Statement of Activities	17
Balance Sheet	18
Reconciliation of the Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Change in Fund Balance	20
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities	21
Notes to Financial Statements	23
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
Budgetary Comparison Schedule – General Fund	49
Schedule of Changes in Net Pension Liability and Related Ratios	50
Schedule of Employer Contributions to Pension Plan	51
Schedule of Changes in OPEB Liability and Related Ratios	52

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## ***INDEPENDENT AUDITOR'S REPORT***

To the Board of Commissioners of the  
Harris County Emergency Services District No. 24:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Harris County Emergency Services District No. 24 (the "District"), as of and for the year ended December 31, 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 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 as of December 31, 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.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, the schedule of employer contributions to pension plan, schedule of changes in the other postemployment benefits liabilities and related ratios, and required supplementary information, as listed in the table of contents, 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 19, 2019

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

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# Harris County Emergency Services District No. 24

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 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 Harris County Emergency Services District No. 24 (the "District") for the year ended December 31, 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 operating performance 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.

# Harris County Emergency Services District No. 24

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 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; the general 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.

# **Harris County Emergency Services District No. 24**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended December 31, 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 Required Supplementary Information ("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**

Net position may serve over time as a useful indicator of the District's financial position. For the District, assets exceed liabilities by \$21,147,533 as of yearend. Unrestricted net position, \$12,931,257, may be used to meet the District's ongoing emergency service operations.

# Harris County Emergency Services District No. 24

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2018

### Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

		<b>Governmental Activities</b>	
		<b>2018</b>	<b>2017</b>
Current assets	\$	22,644,513	\$ 15,049,356
Long-term assets		12,564,704	10,914,730
<b>Total Assets</b>		<b>35,209,217</b>	<b>25,964,086</b>
<b>Total Deferred Outflows of Resources</b>		<b>214,492</b>	<b>573,829</b>
Accounts payable and accrued expenses		632,139	511,481
Long-term liabilities		8,586,437	5,042,472
<b>Total Liabilities</b>		<b>9,218,576</b>	<b>5,553,953</b>
<b>Total Deferred Inflows of Resources</b>		<b>5,057,600</b>	<b>5,033,939</b>
Net Position:			
Net investment in capital assets		7,455,696	5,802,925
Restricted		760,580	531,257
Unrestricted		12,931,257	9,615,841
<b>Total Net Position</b>	<b>\$</b>	<b>21,147,533</b>	<b>\$ 15,950,023</b>

Current assets increased primarily due to the increase in cash and investments, which is a direct result of the rise in revenue and \$4,000,000 of loan proceeds received in the current year. The increase in accounts payable and accrued expenses was the result of the increased construction costs incurred at the end of the current year. The increase in long-term liabilities was due to the aforementioned loan proceeds received in the current year.

# Harris County Emergency Services District No. 24

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2018

### Statement of Activities:

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

	<b>Governmental Activities</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenues</b>		
General revenues:		
Property taxes	\$ 5,076,039	\$ 4,936,946
Sales taxes	3,922,605	3,397,124
Intergovernmental revenues	180,631	-
Other revenues	1,295,972	71,487
Investment income	108,553	11,933
<b>Total Revenues</b>	<b>10,583,800</b>	<b>8,417,490</b>
<b>Expenses</b>		
Public safety	5,092,537	4,332,061
Interest and fiscal charges	293,753	194,669
<b>Total Expenses</b>	<b>5,386,290</b>	<b>4,526,730</b>
<b>Change in Net Position</b>	<b>5,197,510</b>	<b>3,890,760</b>
Beginning Net Position	15,950,023	12,059,263
<b>Ending Net Position</b>	<b>\$ 21,147,533</b>	<b>\$ 15,950,023</b>

The District reported an increase in overall net position of \$5,197,510, 33% from prior year. Sales taxes increased significantly over the current year, as the District has experienced economic growth. Other revenues increased over the current year, as the District received nonrecurring grant proceeds to help fund the purchase of a ladder truck. Investment income increased due to the rise in interest-bearing accounts in the current year. Public safety expenditures increased primarily due to additional payroll and employee benefit expenses paid in the current year.

### 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

# **Harris County Emergency Services District No. 24**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended December 31, 2018**

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 unassigned fund balance at year end was \$12,684,454, which was 179% of annual expenditures.

The District's general fund reflects a fund balance of \$16,953,378. There was an increase in the fund balance of \$7,484,864 compared to the prior year. This increase is primarily a result of current year revenues exceeding expenditures and \$4,000,000 of loan proceeds received in the current year.

### **CAPITAL ASSETS**

As of the end of the year, the District had invested \$12,100,426 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles and equipment. The District's total investment in capital assets increased approximately \$1,185,696 net of depreciation. Major capital asset events during the current year include the following:

- The District spent \$432,184 in acquisition and construction expenses for a new fire station.
- The District purchased \$1,056,943 on a new ladder truck with grant funds received in the current year.
- The District spent \$46,519 on Station 31 renovations.
- The District purchased three additional command vehicles totaling \$149,452.

### **LONG-TERM DEBT**

The District's total outstanding capital lease obligation and notes payable increased by a net amount of \$3,533,070 or approximately 70% during the year. The increase was the result of a \$4,000,000 loan issuance net of principal balances paid during the year. The total long term debt outstanding at the close of the year was \$8,575,542.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual general fund revenues were more than final budgeted revenues by \$4,710,089 during the year primarily due to greater than anticipated sales tax collections and other revenues. Actual general fund expenditures were more than the final budget by \$1,142,810, which is primarily due to greater public safety, capital outlay, and other expenses incurred. Loan proceeds of \$4,000,000 were not budgeted for. These variances were the reason for a net positive overall variance of \$7,567,279 over the final budgeted amounts.

# **Harris County Emergency Services District No. 24**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended December 31, 2018**

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District is located in Harris County, Texas. The District's appointed officials and citizens considered many factors when setting the 2019 fiscal year budget. The District anticipates an increase in revenue in 2019 due to an increase in property values and sales tax.

### **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 the District at 20440 Imperial Valley Drive, Houston, Texas.

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## ***FINANCIAL STATEMENTS***

# Harris County

## Emergency Services District No. 24

*STATEMENT OF NET POSITION (Page 1 of 2)*

December 31, 2018

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash	\$ 5,527,035
Investments	12,096,602
Receivables - property taxes	4,303,903
Receivables - sales taxes	685,942
Receivables - other	11,031
Other current assets	20,000
<b>Total Assets</b>	<b>22,644,513</b>
<b>Non-Current Assets</b>	
Net pension asset	464,278
Capital assets - non-depreciable	3,247,339
Capital assets - net depreciable	8,853,087
<b>Total Non-Current Assets</b>	<b>12,564,704</b>
<b>Total Assets</b>	<b>35,209,217</b>
<b><u>Deferred Outflows of Resources</u></b>	
Pension contributions	164,253
Pension investment experience	107
OPEB contributions	3,113
Pension investment return	11,426
OPEB assumption changes	71
Deferred charge on refunding	35,522
<b>Total Deferred Outflows of Resources</b>	<b>214,492</b>

See Notes to Financial Statements.

# Harris County

## Emergency Services District No. 24

*STATEMENT OF POSITION (Page 2 of 2)*

December 31, 2018

	<u>Governmental Activities</u>
<b><u>Liabilities</u></b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 369,153
Accrued expenses	262,986
Compensated absences - current	8,803
Long-term liabilities due within one year	701,041
<b>Total Current Liabilities</b>	<u>1,341,983</u>
<b>Long-term liabilities</b>	
OPEB liability	1,114
Compensated absences - noncurrent	978
Long-term liabilities due in more than one year	7,874,501
<b>Total Noncurrent Liabilities</b>	<u>7,876,593</u>
<b>Total Liabilities</b>	<u>9,218,576</u>
<b><u>Deferred Inflows of Resources</u></b>	
Pension investment experience vs. assumption	1,965
Unavailable revenue - property tax collections related to next year	912,143
Unavailable revenue - receivable for next year property tax	4,143,492
<b>Total Deferred Inflows of Resources</b>	<u>5,057,600</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	7,455,696
Restricted for Pension and OPEB	640,169
Restricted for fire truck	120,411
Unrestricted	12,931,257
<b>Total Net Position</b>	<u><u>\$ 21,147,533</u></u>

See Notes to Financial Statements.

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# Harris County

## Emergency Services District No. 24

### STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	<u>Governmental Activities</u>
<b><u>Expenses</u></b>	
<b>Public Safety - Fire Protection</b>	
Administration	\$ 1,541,301
Salaries and benefits	2,958,728
Depreciation	592,508
Interest	293,753
<b>Total Program Expenses</b>	<u>5,386,290</u>
 <b><u>General Revenues</u></b>	
Property taxes	5,076,039
Sales taxes	3,922,605
Intergovernmental revenues	180,631
Other revenues	1,295,972
Investment income	108,553
<b>Total General Revenues</b>	<u>10,583,800</u>
 <b>Change in Net Position</b>	<u>5,197,510</u>
 Beginning Net Position	<u>15,950,023</u>
 <b>Ending Net Position</b>	<u><u>\$ 21,147,533</u></u>

See Notes to Financial Statements.

# Harris County

## Emergency Services District No. 24

### BALANCE SHEET

December 31, 2018

	<b>General Fund</b>
<b><u>Assets</u></b>	
Cash	\$ 5,527,035
Investments	12,096,602
Receivables - property taxes	4,303,903
Receivables - sales taxes	685,942
Receivables - other	11,031
Other current assets	20,000
<b>Total Assets</b>	<b>22,644,513</b>
<b><u>Liabilities</u></b>	
Accounts payable	369,153
Accrued expenses	107,024
<b>Total Liabilities</b>	<b>476,177</b>
<b><u>Deferred Inflows of Resources</u></b>	
Unavailable revenue - property tax collections	912,143
Unavailable revenue - property tax receivable	4,302,815
<b>Total Deferred Inflows of Resources</b>	<b>5,214,958</b>
<b><u>Fund Balance</u></b>	
Committed - capital projects	128,513
Restricted for construction of station	4,000,000
Restricted for fire truck	120,411
Unassigned	12,684,454
<b>Total Fund Balance</b>	<b>\$ 16,953,378</b>

See Notes to Financial Statements.

# Harris County

## Emergency Services District No. 24

### *RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION* December 31, 2018

Total fund balance	\$ 16,953,378
Amounts reported for governmental activities in the statement of net position:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets, non-depreciable	3,247,339
Capital assets, net depreciable	8,853,087
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Unavailable revenue - property taxes	159,323
Net pension asset	464,278
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.	
Deferred charge on refunding	35,522
Pension contributions	164,253
Pension investment experience	107
OPEB contributions	3,113
Pension investment return	11,426
OPEB assumption changes	71
Deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and is not recognized as an inflow of resources (revenue) until then.	
Pension investment experience vs. assumption	(1,965)
Long-term liabilities are not due and payable in the current period (i.e. note payables, capital leases, and compensated balances) and, therefore, are not reported as liabilities in the government funds	
Accrued interest	(155,962)
Compensated absences	(9,781)
OPEB liability	(1,114)
Non-current liabilities due in one year	(701,041)
Non-current liabilities due in more than one year	(7,874,501)
<b>Net Position of Governmental Activities</b>	<b>\$ 21,147,533</b>

See Notes to Financial Statements.

# Harris County

## Emergency Services District No. 24

### *STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE*

For the Year Ended December 31, 2018

	<b>General Fund</b>
<b>Revenues</b>	
Property taxes	\$ 5,056,148
Sales taxes	3,922,605
Intergovernmental revenue	180,631
Other revenues	1,295,972
Investment income	108,553
<b>Total Revenues</b>	<u>10,563,909</u>
<b>Expenditures</b>	
Public safety	4,633,618
Capital outlay	1,743,746
Debt service:	
Debt issuance costs	50,000
Principal	466,930
Interest	184,751
<b>Total Expenditures</b>	<u>7,079,045</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	3,484,864
<b>Other Financing Sources (Uses)</b>	
Construction loan issuance	4,000,000
<b>Total Other Financing Sources (Uses)</b>	<u>4,000,000</u>
<b>Net Change in Fund Balance</b>	7,484,864
Beginning Fund Balance	<u>9,468,514</u>
<b>Ending Fund Balance</b>	<u><u>\$ 16,953,378</u></u>

See Notes to Financial Statements.



# Harris County

## Emergency Services District No. 24

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

**For the Year Ended December 31, 2018**

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

Net change in fund balance	\$	7,484,864
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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		1,778,204
Depreciation		(592,508)

Revenue in the statement of activities that does not provide current financial resources are not reported as revenue in the funds.		19,891
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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.

Amortization of deferred charges on refunding		(7,050)
Accrued interest		(51,952)
Compensated absences		(9,781)
Pension deferral (expense)		106,842
OPEB expense		2,070

The issuance of long-term debt provide 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Loan issuance		(4,000,000)
Principal paid on debt		466,930
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u><u>5,197,510</u></u></b>

See Notes to Financial Statements.

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# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS

December 31, 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 non-fiduciary activities of the primary government.

Harris County Emergency Services District No. 24 (the "District") operates under Chapter 775, "Emergency Services Districts" of V.T.C.A, Health and Safety Code. The District is a duly organized emergency services district, created to protect life and property from fire and to conserve natural and human resources. The District is funded by property taxes as paid to it by its citizens (residential and commercial property owners). The District provides firefighting facilities, fire suppression and rescue services, and emergency medical services for its citizens.

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

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

include all activities of the primary government. Governmental activities are normally supported by property and sales taxes and intergovernmental revenues.

The Statement of Activities presents a comparison between general government expenses and general revenues of the District's governmental activities. Expenses, such as those used to fund the principal operations of District, are presented as general government expenses. 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 may have 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 may occur 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.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 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, licenses, 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.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

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

#### **1. Cash 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. Receivables and Interfund Transactions**

Transactions between governmental funds that are representative of the transfer of resources arrangements outstanding at the end of the year are referred to as "due to/from other funds." Further, the activity occurring during the year involving these transfers of resources between funds are reported at gross amounts as transfers in/out.

#### **3. 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.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

### 4. Capital Assets

Capital assets, which include property, plant, equipment, and vehicle assets (e.g., fire trucks, building, fire apparatus, and similar items) are reported in the applicable governmental 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 \$10,000 and an estimated useful life in excess of two years. 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.

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

### 5. 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

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

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.

### **6. 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.

### **7. 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 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.

### **8. Fund Balance**

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).

The 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



# **Harris County Emergency Services District No. 24**

## ***NOTES TO FINANCIAL STATEMENTS, Continued***

**December 31, 2018**

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.

### **9. Compensated Absences**

The liability for compensated absences reported in the government-wide statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the District's policy to liquidate compensated absences with currently available expendable resources. Accordingly, the District's governmental funds recognize accrued compensated absences when it is paid.

### **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 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

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and pension expense have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. See Note V.C. for additional information.

### 13. Other Postemployment Benefits ("OPEB")

The District has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. For the Texas County & District Retirement System (TCDRS), the retiree death benefit paid from the Group Term Life (GTL) program is an OPEB benefit. The OPEB program is treated as an unfunded trust, because the GTL trust covers both actives and retirees and is not segregated.

GASB 75 governs the specifics of accounting for public OPEB plan obligations for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017. GASB 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

The TCDRS Group Term Life program has been determined to be an unfunded OPEB plan as the GTL fund does not meet the requirements of a trust under Paragraph 4b of GASB 75, because the assets of the GTL fund can be used to pay active GTL benefits which are not part of the OPEB plan. For GASB 75 purposes, the OPEB plan is not a cost sharing plan, so the annual benefit payments are treated as being equal to the employer's actual retiree GTL contributions for the year.

## 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,

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

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**

The District’s investment policy requires full collateralization of all time and bank deposits consistent with Chapter 2257 of the Public Funds Collateral Act. As of December 31, 2018, all accounts were fully collateralized.

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. A budget is prepared by fund and function. Appropriations lapse at the end of the year. Public safety, capital outlay, and debt issuance expenditures were over current year appropriations by \$479,931, \$873,609, and \$50,000, respectively.

### **IV. DETAILED NOTES ON ALL FUNDS**

#### **A. Deposits and Investments**

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District’s bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds.

*Custodial Credit Risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District requires funds on deposit at the depository bank to be collateralized by securities when in excess of FDIC coverage. As of December 31, 2018, all accounts were fully collateralized.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

### B. Receivables

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

		<b>General Fund</b>
Property taxes – 2018 tax levy	\$	4,143,492
Property taxes – delinquent		160,411
Sales taxes		685,942
Other		11,031
<b>Total</b>	<b>\$</b>	<b>5,000,876</b>

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

### C. Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases/ Transfers</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 1,648,214	\$ -	-	\$ 1,648,214
Construction in progress	109,998	1,489,127	-	1,599,125
Total capital assets not being depreciated	<u>1,758,212</u>	<u>1,489,127</u>	<u>-</u>	<u>3,247,339</u>
Capital assets, being depreciated:				
Office equipment	295,065	-	-	295,065
Buildings	7,984,840	102,595	-	8,087,435
Vehicles	4,108,069	149,452	-	4,257,521
Equipment	805,428	37,030	-	842,458
Total capital assets being depreciated	<u>13,193,402</u>	<u>289,077</u>	<u>-</u>	<u>13,482,479</u>
Less accumulated depreciation				
Office equipment	(265,740)	(14,663)	-	(280,403)
Buildings	(1,399,096)	(267,620)	-	(1,666,716)
Vehicles	(1,677,302)	(259,162)	-	(1,936,464)
Equipment	(694,746)	(51,063)	-	(745,809)
Total accumulated depreciation	<u>(4,036,884)</u>	<u>(592,508)</u>	<u>-</u>	<u>(4,629,392)</u>
Net capital assets being depreciated	<u>9,156,518</u>	<u>(303,431)</u>	<u>-</u>	<u>8,853,087</u>
<b>Total capital assets</b>	<u><u>\$ 10,914,730</u></u>	<u><u>\$ 1,185,696</u></u>	<u><u>-</u></u>	<u><u>\$ 12,100,426</u></u>

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

### D. Long-Term Obligations

The following is a summary of long-term obligations for the year ended December 31, 2018:

Description	Balance at 12/31/2017	Increases	Decreases	Balance at 12/31/2018	Due within a year
Capital lease:					
OshKosh Capital, due in annual installments through 2022, interest at 3.26%	\$ 829,467	\$ -	\$ (108,040)	\$ 721,427	\$ 111,562
Notes payable:					
Government Capital, due in annual installments through 2024, interest at 3.83%	1,525,147	-	(194,115)	1,331,032	201,543
Government Capital, due in annual installments through 2030, interest at 3.70%	2,687,858	-	(164,775)	2,523,083	170,866
Chase Bank, due in annual installments through 2033, interest at 2.93%	-	4,000,000	-	4,000,000	217,070
Compensated absences	-	9,781	-	9,781	8,803
	<u>\$ 5,042,472</u>	<u>\$ 4,009,781</u>	<u>\$ (466,930)</u>	<u>\$ 8,585,323</u>	<u>\$ 709,844</u>
			Due in more than one year	<u>\$ 7,875,479</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The carrying value of the capital assets being leased as of December 31, 2018 is \$1,073,108.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

The annual requirement to amortize debt outstanding at year end was as follows:

Year ending December 31,	Capital lease		Notes payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 111,562	\$ 23,519	\$ 589,479	\$ 260,415	\$ 701,041	\$ 283,934
2020	115,199	19,882	608,891	241,003	724,090	260,885
2021	118,954	16,126	629,966	219,929	748,920	236,055
2022	375,712	12,948	651,780	198,114	1,027,492	211,063
2023	-	-	674,360	175,534	674,360	175,534
2024	-	-	697,733	152,161	697,733	152,161
2025	-	-	469,445	127,967	469,445	127,967
2026	-	-	484,827	112,585	484,827	112,585
2027	-	-	500,720	96,692	500,720	96,692
2028	-	-	517,141	80,272	517,141	80,272
2029	-	-	534,107	63,305	534,107	63,305
2030	-	-	1,495,666	101,627	1,495,666	101,627
	<u>\$ 721,427</u>	<u>\$ 72,475</u>	<u>\$ 7,854,115</u>	<u>\$ 1,829,606</u>	<u>\$ 8,575,542</u>	<u>\$ 1,902,080</u>

### E. Deferred Charge on Refunding

The deferred charge resulting from the issuance of the Government Capital note payable has been recorded as a deferred outflow of resources and is being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding debt. The balance at year end was \$35,522. Current year amortization expense was \$7,050.

### F. Restricted/Committed/Nonspendable Net Position/Fund Balance

The District reports restricted and nonspendable fund balance on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation.

Total restricted net position for the District was \$640,169 for the District's net pension (asset) and OPEB liability, \$4,000,000 for construction of fire station, and \$120,411 for fire truck. Total committed fund balance for the District was \$128,513 that represents fund balance committed to future capital projects.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

### 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 three fiscal years.

#### 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.

#### C. Defined Benefit Pension Plan

##### 1. Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of over 600 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

##### Plan Initiation

Effective August 1, 2017, the District began enrollment within the TCDRS defined benefit pension plan for all full and part-time employees. The District's initial contributions were submitted in August 2017.



# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

### **2. Eligible Participants**

All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

### **3. Benefits Provided**

The plan provisions are adopted by the District within the options available in Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

### **4. Funding Policy**

The District has elected the annually determined contribution rate (ACDR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The District contributed using the ADCR of 6.86% for calendar year 2018 and 6.86% for calendar year 2017.

The District adopted the rate of 7% as the contribution rate payable by the employee members for calendar years 2018 & 2017. The District may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

### 5. Contributions

Year ended:

	<u>12/31/2018</u>	<u>12/31/2017</u>
Annual Determined Contribution Cost (ADCC)	\$ 164,291	\$ 531,257
Actual Contributions Made	\$ (164,291)	\$ (531,257)
Percentage of ADCC Made	100%	100%
<b>Contribution deficiency (excess)</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The required contribution rates for fiscal year 2018 were determined as part of the December 31, 2017 actuarial valuations.

Additional information as of the latest actuarial valuation, December 31, 2017, also follows:

Valuation Date	<u>12/31/2017</u>
Actuarial Cost	Entry Age
Amortization	Level Percent payroll, closed
Amortization Period in years	13.8
Asset Valuation Method	5-year smoothed
Actuarial Assumptions:	
Investment Rate of Return*	8.0%
Projected Salary Increases	4.9%
* Includes Inflation at stated-rate	2.8%
Cost of living adjustments	0.0%

### **Employees covered by benefit terms**

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	2
Active employees	61
Total	63

### 6. Net Pension Liability (Asset)

The District's Net Pension Liability (Asset) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

### **Actuarial assumptions:**

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	0 - 5.25% per year depending on experience
Investment Rate of Return	8.10%, before pension plan investment expense

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 8.10% gross of administrative expenses. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected minus inflation) (2)
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities – Developed	MSCI World Ex USA (net)	11.00%	4.55%
International Equities – Emerging	MSCI World Ex USA (net)	8.00%	5.55%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	18.00%	4.10%

(1) Target asset allocation adopted at the April 2018 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.95%, per Cliffwater's 2018 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

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

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

### Discount Rate:

The discount rate used to measure the Total Pension Liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

### Changes in the Net Pension Liability (Asset):

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
<b>Balance at 12/31/16</b>	\$ -	\$ -	\$ -
Changes for the year:			
Service Cost	135,648	-	135,648
Interest on total pension liability <sup>(1)</sup>	10,988	-	10,988
Effect of plan changes <sup>(2)</sup>	-	-	-
Effect of economic/demographic gains or losses	116	-	116
Changes of assumptions	(2,129)	-	(2,129)
Benefit payments	-	-	-
Administrative expense	-	(405)	405
Member contributions	-	61,542	(61,542)
Net investment income	-	9,520	(9,520)
Employer contributions	-	530,317	(530,317)
Other <sup>(3)</sup>	-	7,927	(7,927)
Net changes	144,623	608,901	(464,278)
<b>Balance at 12/31/17</b>	<b>\$ 144,623</b>	<b>\$ 608,901</b>	<b>\$ (464,278)</b>

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) No plan changes valued.

(3) Relates to allocation of system-wide items.

### Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

1% Decrease 7.10%	Current Single Rate Assumption 8.10%	1% Increase 9.10%
\$ (433,672)	\$ (464,278)	\$ (488,981)

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

### Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the internet at [www.tcdrs.com](http://www.tcdrs.com).

### 7. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the District recognized pension expense of \$56,470.

At December 31, 2018, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and investment earnings	\$ 11,426	\$ -
Differences between expected and actual economic experience	107	-
Contributions subsequent to the measurement date	164,253	-
Investment experience vs. assumption	-	(1,965)
<b>Total</b>	<b>\$ 175,786</b>	<b>\$ (1,965)</b>

The District reported \$164,253 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending December 31, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>		
2018	\$	2,702
2019		2,702
2020		2,702
2021		2,702
2022		(155)
Thereafter		(1,085)
	\$	<u>9,568</u>

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

### Other Postemployment Benefits

The District also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas County and District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and to retired employees. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for \$5,000.

The GTLF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GTLF. This report is available at [www.tcdrs.org](http://www.tcdrs.org). TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782.

### **Employees covered by benefit terms**

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	61
Total	61

Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The District contributions to the GTLF for the years ended December 31, 2018 and 2017 were \$3,113 and \$1,143, respectively, which equaled the contractually required contributions each year.

### Schedule of Contribution Rates (*RETIREE-only portion of the rate*)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2017	0.13%	0.13%	100.0%
2018	0.13%	0.13%	100.0%

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

### Total OPEB Liability

The District's Postemployment Benefits Other Than Pensions Liability for the Group Term Life Fund (GTLF OPEB) was measured as of December 31, 2017, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

### Actuarial assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuating Timing Calculated on a calendar year basis as of December 31.

Actuarial Cost Method Entry Age Normal

Amortization Method Straight-Line amortization over Expected Working Life

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP-2014 Combined Healthy Mortality Tables, with rates multiplied by 90% to 130% depending on gender and type.

### Discount Rate:

The TCDRS GTL program is treated as unfunded OPEB plan because the GTL trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.44% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017.

### Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.44%, as well as what the Montgomery County Emergency Communication District Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.44%) or 1 percentage point higher (4.44%) than the current rate.

1% Decrease (2.44%)	Current Single Rate Assumption 3.44%	1% Increase (4.44%)
\$ 1,498	\$ 1,114	\$ 837



# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2018

### Changes in the Total OPEB Liability:

	<b>Total OPEB Liability</b>
<b>Balance at 12/31/16</b>	<b>\$ -</b>
Changes for the year:	
Service Cost	1,003
Interest	34
Difference between expected and actual experience	-
Changes of assumptions	77
Benefit payments	-
Net changes	1,114
<b>Balance at 12/31/17</b>	<b>\$ 1,114</b>

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the District recognized OPEB expense of \$1,043.

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	<b>Deferred Outflows of Resources</b>
Changes in assumptions	\$ 71
Contributions subsequent to measurement date	3,113
<b>Total</b>	<b>\$ 3,184</b>

The District reported \$3,113 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending December 31, 2019.

# Harris County Emergency Services District No. 24

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2018

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2018	\$	6
2019		6
2020		6
2021		6
2022		6
Thereafter		41
	\$	<u>71</u>

### D. Subsequent Events

On March 20, 2019, the District purchased land for a new station for \$1,663,829.

There were no other material subsequent events through June 19, 2019, the date the financial statements were available to be issued.

## ***REQUIRED SUPPLEMENTARY INFORMATION***

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**Harris County**  
**Emergency Services District No. 24**  
*BUDGETARY COMPARISON SCHEDULE - GENERAL FUND*  
For the Year Ended December 31, 2018

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 4,753,820	\$ 4,753,820	\$ 5,056,148	\$ 302,328
Sales taxes	1,100,000	1,100,000	3,922,605	2,822,605
Intergovernmental revenue	-	-	180,631	180,631
Other revenues	-	-	1,295,972	1,295,972
Investment income	-	-	108,553	108,553
<b>Total Revenues</b>	<u>5,853,820</u>	<u>5,853,820</u>	<u>10,563,909</u>	<u>4,710,089</u>
<b>Expenditures</b>				
Public safety	4,071,272	4,153,687	4,633,618	(479,931) *
Capital outlay	870,137	870,137	1,743,746	(873,609) *
Debt issuance cost	-	-	50,000	(50,000) *
Debt service - principal	727,660	727,660	466,930	260,730
Debt service - interest	184,751	184,751	184,751	-
<b>Total Expenditures</b>	<u>5,853,820</u>	<u>5,936,235</u>	<u>7,079,045</u>	<u>(1,142,810)</u>
<b>Other Financing Sources (Uses)</b>				
Construction loan issuance	-	-	4,000,000	4,000,000
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>4,000,000</u>	<u>4,000,000</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ (82,415)</u>	<u>7,484,864</u>	<u>\$ 7,567,279</u>
Beginning Fund Balance			<u>9,468,514</u>	
<b>Ending Fund Balance</b>			<u>\$ 16,953,378</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- \* 2. Expenditures exceeded appropriations at the legal level of control.

# Harris County

## Emergency Services District No. 24

### *SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS*

For The Years Ended December 31,

	<u>2017</u>
Total pension liability	
Service cost	\$ 135,648
Interest	10,988
Changes in benefit terms	-
Effect of economic/demographic gains or losses	116
Changes of assumptions	(2,129)
Benefit payments	-
<b>Net change in total pension liability</b>	<u>144,623</u>
<b>Total pension liability - beginning</b>	<u>-</u>
<b>Total pension liability - ending (a)</b>	<u>144,623</u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 530,317
Contributions - members	61,542
Net investment income	9,520
Benefit payments	-
Administrative expenses	(405)
Other	7,927
<b>Net change in plan fiduciary net position</b>	<u>608,901</u>
<b>Plan fiduciary net position - beginning</b>	<u>-</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 608,901</u>
<b>Fund's net pension liability (asset) - ending (a) - (b)</b>	<u><u>\$ (464,278)</u></u>
 <b>Plan fiduciary net position as a percentage of the total pension liability (asset)</b>	 421.03%
<b>Covered payroll</b>	879,169
<b>Fund's net position as a percentage of covered payroll</b>	-52.81%

**Notes to schedule:**

1) This schedule is presented to illustrate the requirement to show information for ten calendar years. However, until a full ten-year trend is compiled, only available information is shown.

**Harris County**  
**Emergency Services District No. 24**  
*SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN*  
For The Years Ended December 31,

	<u>2018</u>	<u>2017</u> <sup>1</sup>
Actuarially determined employer contributions	\$ 164,291	\$ 531,257
Contributions in relation to the		
actuarially determined contribution	<u>\$ 164,291</u>	<u>\$ 531,257</u>
Contribution deficiency (excess)	\$ -	\$ -
Annual covered payroll	\$ 2,394,364	\$ 879,169 <sup>2</sup>
Employer contributions as a percentage		
of covered payroll	6.86%	60.43%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

2) Payroll shown here is based on a start date in August 2017 to be consistent with time period contributions were being made.

**Harris County**  
**Emergency Services District No. 24**  
*SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN  
PENSIONS (OPEB) LIABILITY AND RELATED RATIOS*  
*TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM*  
*SUPPLEMENTAL DEATH BENEFITS PLAN*  
**For The Years Ended December 31,**

	<b>2017</b>	<sup>1</sup>
Total OPEB liability		
Service cost	\$ 1,003	
Interest	34	
Changes in benefit terms	-	
Differences between expected and actual experience	-	
Changes of assumptions	77	
Benefit payments, including refunds of participant contributions	-	
<b>Net change in total OPEB liability</b>	<u>1,114</u>	
<b>Total OPEB liability - beginning</b>	<u>\$ -</u>	
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 1,114</u></u>	<sup>2</sup>
 <b>Covered payroll</b>	 879,169	
<b>District's total OPEB liability as a percentage of covered payroll</b>	0.13%	

**Notes to schedule:**

<sup>1</sup> This schedule is presented to illustrate the requirement to show information for ten calendar years. However, until a full ten-year trend is compiled, only available information is shown.

<sup>2</sup> No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.