

**ORANGE COUNTY EMERGENCY
SERVICES DISTRICT NO. 1**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1
Annual Financial Report
For The Year Ended SEPTEMBER 30, 2017

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INTRODUCTORY SECTION

ORANGE COUNTY EMERGENCY SERVICES DISTRICT No. 1

ORANGE COUNTY, TEXAS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Board of Commissioners

Wyatt Boyett
Gary Bieslich
Nelda Nash
Gene Domec
Jim Morrison

President
Vice President
Secretary/Treasurer
Secretary
Commissioner

Command Staff

Bryant Champagne

Fire Chief

ORANGE COUNTY EMERGENCY SERVICES DISTRICT No. 1
CERTIFICATE OF BOARD

We, the undersigned, certify that this accompanying audit report of the above named district was reviewed and approved for the year ended September 30, 2017 at a meeting of the Board of Commissioners held on the 15th day of February, 2018.

Board President

Board Secretary

FINANCIAL SECTION

J. R. Edwards & Associates, LLC

Certified Public Accountants

February 12, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Orange Emergency Services District No. 1
Orange County, Texas

We have audited the accompanying financial statements of the governmental activities, and each major fund of Orange County Emergency Services District No.1, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund the Orange County Emergency Services District No. 1, as of September 30, 2017, 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 and budgetary comparison information on pages 4 - 9 and page 24 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.

J.R. Edwards & Associates, LLC

As management of the Orange County Emergency Services District # 1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the independent auditors' report and the District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the OCESD # 1 exceeded liabilities as of September 30, 2017, by \$2,199,863 (net position). Of this amount \$714,830 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The District had expenses associated with governmental activities totaling \$1,332,660 and total revenues and other financing sources were \$1,342,967.
- As of September 30, 2017, the OCESD # 1 general fund reported an ending fund balance of \$625,276, an increase of \$31,544 in comparison with the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The District adopted the provisions of Governmental Accounting and Financial Reporting for Non-exchange Transactions and Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis for State and Local Governments as of October 1, 2003.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances; in a manner similar to a private-sector business

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

The *Statement of Activities* presents information showing how the government's net position changed during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation).

In the Statement of Net Position and the Statement of Activities, the District report contains one type of activity:

Governmental activities – All of the District's basic services are reported here, including the administration, emergency equipment upkeep and purchases, data processing and general and administrative.

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The District has only one type of fund, which is the governmental fund.

The District has the following kinds of 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 fiscal year. Such information may be useful in evaluating a government'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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District's major governmental fund is the General Fund. Data for the remaining governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

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

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$2,199,863 at the close of the fiscal year September 30, 2017.

| | September 30, 2017 | September 30, 2016 |
|--|-----------------------|-----------------------|
| Current and Other Assets | \$ 773,369 | \$ 733,276 |
| Capital Assets, Net | 3,565,045 | 3,727,914 |
| Noncurrent Assets | - | - |
| Total Assets | <u>4,338,414</u> | <u>4,461,190</u> |
| Deferred Outflows | | |
| Differences - Pension | 86,998 | 105,614 |
| Total Assets and Deferred Outflows | <u>4,425,412</u> | <u>4,566,804</u> |
| Current and Other Liabilities | \$ 246,379 | \$ 229,922 |
| Long-term Liabilities | 1,912,289 | 2,147,327 |
| Total Liabilities | <u>2,158,668</u> | <u>2,377,249</u> |
| Deferred Inflows | 66,881 | - |
| Total Liabilities and Deferred Inflows | <u>2,225,549</u> | <u>2,377,249</u> |
| Net Assets: | | |
| Invested in Capital Assets Net of Related Debt | 1,485,033 | 1,506,443 |
| Unrestricted | 714,830 | 683,112 |
| Total Net Position | <u>\$ 2,199,863</u> | <u>\$ 2,189,555</u> |

Changes in net position. The District had an increase in net position of \$10,307. The difference from the prior year decrease of \$862, mainly due to the decrease in expenses offset partially by property tax related revenues.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT No. 1
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Key elements of the governmental activities of the District are reflected in the following table.

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Revenues | | |
| General Revenues: | | |
| Property Taxes | \$ 1,237,234 | \$ 1,189,637 |
| Penalties and Interest | 65,578 | 58,056 |
| Interest Income | 4,512 | 2,236 |
| Program Revenue: | | |
| Charges for Services | 15,195 | 46,751 |
| Grants and Contributions | 16,686 | 190,376 |
| Other miscellaneous | 150 | 634 |
| Total Revenues | <u>1,339,355</u> | <u>1,487,690</u> |
| Expenses | | |
| Human Resources | 822,021 | 704,177 |
| Supplies | 126,031 | 163,218 |
| Contract Services | 117,932 | 128,558 |
| Interest Expense | 95,957 | 79,469 |
| Depreciation | 170,719 | 148,479 |
| Capital Acquisitions - Not capitalized | - | 227,521 |
| Total Expenses | <u>1,332,660</u> | <u>1,451,422</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 6,695 | 36,268 |
| Other Financing Uses: | | |
| Insurance Recoveries/Proceeds on Disposal of Assets | 3,612 | (37,130) |
| Net Change in Net Position | 10,307 | (862) |
| Net Position, Beginning of Year | 2,189,556 | 2,190,418 |
| Net Position, End of Year | <u>\$ 2,199,863</u> | <u>\$ 2,189,556</u> |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

ORANGE COUNTY EMERGENCY SERVICES DISTRICT No. 1
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2017

GOVERNMENTAL FUNDS

The focus of the District's governmental fund 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2017, the District's governmental fund reported an ending balance of \$625,276, an increase of \$31,544 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues exceeded budgeted by \$21,126 which is the result of underestimated miscellaneous revenue item. Budgeted expenses exceeded actual expenses by \$10,418 mainly due to overestimated expenses in supplies and contract services.

| | Fiscal Year 2017 | | | Fiscal Year 2016 | | |
|--|------------------|------------------|-----------------|------------------|------------------|------------------|
| | Actual | Budget | Budget Variance | Actual | Budget | Budget Variance |
| Income: | | | | | | |
| Tax Revenue | 1,297,842 | 1,281,805 | 16,037 | \$ 1,248,168 | \$ 1,223,057 | \$ 25,111 |
| Interest Income | 4,511 | 100 | 4,411 | 2,236 | 1,794 | 442 |
| Grants and Contributions | 10,863 | 8,966 | 1,897 | 190,376 | 190,376 | - |
| Charges for Services | 15,195 | 26,000 | (10,805) | 46,751 | 46,390 | 361 |
| Miscellaneous | 9,586 | - | 9,586 | 635 | 61,875 | (61,240) |
| Total Income | 1,337,997 | 1,316,871 | 21,126 | 1,488,166 | 1,523,492 | (35,326) |
| Expense: | | | | | | |
| Human Resources | 825,805 | 810,448 | 15,357 | 704,366 | 731,960 | (27,594) |
| Supplies | 125,999 | 137,775 | (11,776) | 163,218 | 177,751 | (14,533) |
| Contract Services | 117,932 | 130,625 | (12,693) | 128,558 | 147,242 | (18,684) |
| Capital Acquisitions | 7,881 | 9,000 | (1,119) | 772,656 | 294,362 | 478,294 |
| Debt Service: Principal | 141,459 | 229,023 | (87,564) | 94,942 | 652,191 | (557,249) |
| Debt Service: Interest Expense | 87,377 | - | 87,377 | 77,731 | - | 77,731 |
| Total Expense | 1,306,453 | 1,316,871 | (10,418) | 1,941,471 | 2,003,506 | (62,035) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 31,544 | - | 31,544 | (453,305) | (480,014) | 26,709 |
| Other Financing Sources: | | | | | | |
| Insurance Recoveries/Gain on Disposal of Assets | - | - | - | - | 547 | (547) |
| Proceeds from note payable | - | - | - | 479,467 | 479,467 | - |
| Net Change in Fund Balance | 31,544 | - | 31,544 | \$ 26,162 | \$ - | \$ 26,162 |

GENERAL FUND BUDGETARY HIGHLIGHTS, Continued

A net change in fund balance (increase of \$31,544) is mainly due to an increase in property tax revenue from the prior year.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets. The District's investment in capital assets for its governmental activities as of September 30, 2017 amount to \$3,565,045, net of accumulated depreciation. This investment in capital assets includes land, buildings, apparatus, emergency equipment, office equipment, furniture and fixtures, and fire prevention equipment.

CAPITAL ASSETS

| | Fiscal Year 2017 | Fiscal Year 2016 |
|-------------------------------------|------------------|------------------|
| Land | \$ 101,000 | \$ 101,000 |
| Buildings | 2,643,352 | 2,643,352 |
| Emergency Equipment | 309,640 | 301,790 |
| Apparatus | 1,705,727 | 1,705,727 |
| Furniture and Fixtures | 17,850 | 17,850 |
| Fire Prevention | 130,674 | 130,674 |
| Total Capital Assets | 4,908,243 | 4,900,393 |
| Less Accumulated Depreciation | (1,343,198) | (1,172,479) |
| Capital Assets, net of Depreciation | \$ 3,565,045 | \$ 3,727,914 |

Long-Term Debt. The District has long-term debt (due within more than one year) in the amount of \$1,936,075 at the end of the fiscal year. Additional information on long-term debt can be found in note number 5.

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

\$462,060 of the unassigned fund balance in the general fund is available for spending in the 2017/2018 budget. The District has \$107,974 and \$55,242 in committed fund balance. The following classification define these fund balance amounts (Note K):

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

Committed fund balance – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Restricted fund balance – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES; Continued

The tax rate for year 2017 was \$.1000 on \$100 valuation. The Tax Rate for Year 2018 is \$.1000 on \$100 valuation. There is no change because all emergency Services Districts are capped at \$.1000 on \$100 valuation by law.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Orange County Emergency Services District # 1's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District Secretary at 2351 Hwy 12, Vidor, TX 77662.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Primary Government |
|--|------------------------------------|
| | <u>Governmental Activities</u> |
| ASSETS | |
| Cash and cash equivalents | \$ 632,343 |
| Taxes receivable - net of allowance | 141,026 |
| Capital assets: | |
| Buildings, property, and equipment, net | 3,565,045 |
| Total Assets | <u>4,338,414</u> |
| | |
| Deferred Outflows of Resources | |
| Difference between expected and actual expense | 28,232 |
| Difference between projected and actual earnings on pension plan | 24,274 |
| Contributions subsequent to measurement date | 34,492 |
| Total Assets and Deferred Outflows | <u>4,425,412</u> |
| | |
| LIABILITIES | |
| Current Liabilities: | |
| Accrued Liabilities | 17,545 |
| Interest Payable | 84,897 |
| Non-current liabilities: | |
| Due within one year | 143,937 |
| Due in more than one year | 1,936,075 |
| Net Pension Liability | (23,786) |
| Total Liabilities | <u>2,158,668</u> |
| | |
| Deferred Inflows of Resources | 66,881 |
| Total Liabilities and Deferred Inflows | <u>2,225,549</u> |
| | |
| NET POSITION | |
| Net investment in capital assets | 1,485,033 |
| Unrestricted | 714,830 |
| Total Net Position | <u>\$ 2,199,863</u> |

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

| Functions / Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Primary Government Governmental Activities |
| Governmental activities: | | | | |
| Human resources | 822,021 | 15,195 | | (806,826) |
| Supplies | 126,031 | | | (126,031) |
| Contract services | 117,932 | | | (117,932) |
| Depreciation | 170,719 | | | (170,719) |
| Interest on long-term debt | 95,957 | - | - | (95,957) |
| Total governmental activities | 1,332,660 | 15,195 | - | (1,317,465) |
| Total Primary Government | \$ 1,332,660 | \$ 15,195 | \$ - | (1,317,465) |
| Property taxes, penalties and interest | | | | 1,302,812 |
| Contributions not restricted to specific programs | | | | 10,863 |
| Interest | | | | 4,512 |
| Loss on disposal of asset | | | | 0 |
| Other miscellaneous | | | | 9,585 |
| Total general revenues | | | | 1,327,772 |
| Change in Net Position | | | | 10,307 |
| Net Position- Beginning | | | | 2,189,556 |
| Net Position - Ending | | | | 2,199,863 |

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

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2017

| | Total Governmental Funds |
|---|--------------------------------|
| | <u>General Fund</u> |
| ASSETS: | |
| Cash and cash equivalents | \$ 632,343 |
| Property taxes receivable (net of allowances for doubtful accounts) | 141,026 |
| TOTAL ASSETS | <u>\$ 773,369</u> |
| LIABILITIES AND FUND BALANCES: | |
| LIABILITIES: | |
| Accrued Liabilities | \$ 17,545 |
| TOTAL LIABILITIES | <u>17,545</u> |
| DEFERRED INFLOWS OF RESOURCES: | |
| Unavailable revenue - property tax | 130,548 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>130,548</u> |
| FUND BALANCES: | |
| Committed for Debt Service | 55,242 |
| Committed for Stabilization / Contingency | 107,974 |
| Unassigned Fund Balance | 462,060 |
| Total fund balances | <u>625,276</u> |
| TOTAL LIABILITIES DEFERRED INFLOWS AND FUND BALANCE | <u>\$ 773,369</u> |

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

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
SEPTEMBER 30, 201

| | |
|---|---------------------|
| Governmental fund balance as reported on the balance sheet for governmental funds. | \$ 625,276 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 3,565,045 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | (2,080,012) |
| Interest on long-term debt is not accrued in the funds. | (84,897) |
| Net pension liability is not accrued in the funds. | 23,786 |
| Recognition of deferred property taxes as revenue increases net position. | 130,548 |
| Certain pension contributions and changes in the pension plan net position are reported as deferred outflows of resources in the Statement of Net Position, but are reported as expenses in the governmental funds. | 20,117 |
| Total net position as reported on the Statement of Net Position for Governmental Activities. | <u>\$ 2,199,863</u> |

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

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1

EXHIBIT D

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Total Governmental Funds |
|--|--------------------------------|
| | <u>General Fund</u> |
| REVENUES | |
| Property taxes, penalties and interest | \$ 1,297,842 |
| Charges for services | 15,195 |
| Grant income | 10,863 |
| Other miscellaneous | 14,097 |
| Total revenue | <u>1,337,997</u> |
| EXPENDITURES: | |
| Current: | |
| Human resources | 825,805 |
| Supplies | 125,999 |
| Contract services | 117,932 |
| Capital acquisitions | 7,881 |
| Debt service | 87,377 |
| Total expenditures | <u>1,164,994</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>173,003</u> |
| OTHER FINANCING SOURCES (USES) | |
| Proceeds from debt | - |
| Principal payments on loan | (141,459) |
| Total other financing sources and uses | <u>(141,459)</u> |
| NET CHANGE IN FUND BALANCES | 31,544 |
| FUND BALANCES - BEGINNING | <u>593,732</u> |
| FUND BALANCES - ENDING | <u>\$ 625,276</u> |

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net change in fund balances - total governmental funds (Exhibit D) \$ 31,544

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. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|----------------|------------------|-----------|
| Capital Outlay | \$ 7,850 | |
| Depreciation | <u>(170,719)</u> | (162,869) |

The net effect of various miscellaneous transactions involving disposal of capital assets is to decrease net position. -

The issuance of long-term debt 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.

| | | |
|----------------------------|----------------|---------|
| Issuance of new debt | \$ - | |
| Principal payments on loan | <u>141,459</u> | 141,459 |

Because some tax revenues will not be collected for several months after the District's fiscal year end, they are not considered "available" revenue and are deferred in the governmental funds. Deferred revenues increased by this amount in the current period. 4,970

Interest expense on long-term liabilities of governmental debt are not due and payable in the current period and accordingly are not reported as current period expenditures.

Accrued interest expense on long-term debt of the governmental activities is reported in the Statement of Activities.

| | | |
|--|---------------|---------|
| Accrued interest on notes payable - prior year | \$ (76,316) | |
| Accrued interest on notes payable - current year | <u>84,897</u> | (8,581) |

Certain pension contributions and changes in the pension plan net position are reported as deferred outflows in the government wide financial statements. Additional pension expense is reported in the government wide financial statements as the deferred outflows are amortized and the net pension liability changes from year to year 3,784

Change in net position of governmental activities (Exhibit B) \$ 10,307

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Orange County Emergency Services District No. 1 (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies used by the District.

A. Reporting Entity

Creation of the District – The Orange County Emergency Services District # 1 (District) was organized as provided by Article III, Section 48-e of the Texas Constitution and adopted by the voters at an election held May 1, 1993. The Orange County Emergency Services District # 1 began operations effective October 1, 1993. Chapter 775 of the *Health and Safety Code*, Texas Department of Health, authorizes the District to levy an ad valorem tax of up to ten (10) cents per \$100 valuation, thus providing increased funding to provide fire prevention and education, fire-fighting services and other emergency services to the western end of Orange County.

The District has adopted Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." In accordance with this statement, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but 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.

The District is governed by a Board of Commissioners consisting of five individuals who are appointed by the Commissioner's Court of Orange County. As required by generally accepted accounting principles, these financial statements present the activities of the District which is considered to be the primary government as well as the reporting entity. There are no other organizations which meet the criteria for inclusion herein as part of the financial reporting entity.

B. Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the nonfiduciary activities of the primary government and its component units. Because the District has only one fund, there is no interfund activity to be removed from these statements.

Government activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-like activities, which rely to a significant extent on fees and charges for funding. The District has no business-like activities.

The statement of activities demonstrates the degree to which the direct expenses of a given structure or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

B. Government-wide Financial Statements Continued

Separate financial statements would be provided for governmental funds and proprietary funds; however the District has no proprietary funds. Because the District has only one fund, the general fund, there is only one column in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property 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.

Governmental fund financial statements are reported using the current financial *resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if it is 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenue include 1) operating grants and contributions, 2) capital grants and contributions, 3) charges for services, and 4) miscellaneous revenue such as hazmat revenue. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses or expenditures, as appropriate. The following funds and groups of accounts are used by the District:

Governmental Fund Types:

General Fund – The general fund is the general operating fund of the District. All financial resources, except those required to be accounted for in other funds, are accounted for in the general fund.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Account Groups:

General Fixed Assets (GFA) – The general fixed assets account group is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. No depreciation is recorded on general fixed assets.

General Long-term Debt – Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

E. Budgetary Data

The Fire Chief submits an annual budget to the Board of Commissioners. In August, the Board adopts the annual fiscal year budget for District operating funds. Once approved, the District's Board may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures.

The budget for the operating funds is prepared on the cash receipts and expenditures-encumbrances basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued.

The combined statement of revenues, expenditures and changes in fund balance – budget and actual for the general fund – presents comparisons of legally adopted budgets with actual data on a budgetary basis. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. Unused appropriations for the budgeted fund lapse at the end of the year.

F. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year end.

G. Property Taxes Receivable

In the governmental fund financial statements, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter to be used to pay liabilities of the current period) are recognized as revenue in the year of levy. Property taxes that are measurable, but not available, are recorded, net of estimated uncollectible amounts, as deferred revenues in the year of levy. Such deferred revenues are recognized as revenue in the fiscal year in which they become available.

H. Capital Assets

Capital assets which include property, furniture, and equipment 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 \$5,000 or more and an

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. 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. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|------------------------|--------------|
| Buildings | 20-75 |
| Leasehold Improvements | 20-75 |
| Equipment | 5-20 |

I. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

K. Fund Equity

As of these financial statements, the District has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. In accordance with GASB Statement No. 54, fund balance classifications are recorded as follows:

Non-spendable Fund Balance – amounts that are not in spendable form or amounts that are legally and contractually required to be maintained intact.

Restricted Fund Balance – amounts constrained to a specific purpose by external parties through constitutional provisions or by enabling legislation.

Committed Fund Balance – amounts constrained to a specific purpose by the Commissioners (the highest level of authority within the District); amounts may only be appropriated by resolution of the Board of Commissioners and those amounts cannot be used for any other purpose unless the Commissioners take the same action to remove or change the constraint.

Assigned Fund Balance- the Board of Commissioners delegate authority to the District Fire Chief to assign amounts for specific purpose as appropriate.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Unassigned Fund balance – residual classification applicable to the general fund only.

When the government incurs expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then assigned fund balance, then unassigned fund balance, and finally committed fund balance.

The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution and formal action of the Board. This is done through adoption and amendment of the budget.

The fund balance as of September 30, 2017 includes the following classifications:

| | <u>Source</u> |
|---|-------------------|
| Committed for Debt Service: | \$ 55,242 |
| Committed to Stabilization / Contingency Fund | 107,974 |
| Unassigned | <u>462,060</u> |
| Total Fund Balance | <u>\$ 625,276</u> |

NOTE 2: CASH AND INVESTMENTS

The District maintains cash accounts that are available for use by the general fund, the District's only fund type. The District conducts all of its banking transaction with its depository bank, First Financial Bank, Vidor, Texas.

Deposits: At September 30, 2017, the carrying amount of the District's deposits was \$632,343 and the bank balance was \$648,003. The entire carrying amount was covered by Federal Deposit Insurance or collateralized with securities. First Financial Bank fully collateralized any deposits in excess of FDIC insurance.

Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 – Deposits are insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 – Deposits which are collateralized with securities held by pledging financial institutions, trust departments, or agent in the entity's name.

Category 3 – Deposits which are not collateralized.

Based on these three levels of risk, the District's deposits are all classified as Category 1.

Investments: The District has no cash investments.

NOTE 3: PROPERTY TAXES

District property taxes are assessed by the Orange County Appraisal District as mandated in the State Property Tax Code.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

NOTE 3: PROPERTY TAXES Continued

The District contracts with the Orange County Tax Assessor/Collector on an annual basis, from tax year to tax year, until either party makes a decision to terminate the collections contract, with written notice. The Orange County Tax Assessor/Collector transmits current and delinquent tax collections to the District periodically throughout each month, along with computerized statements detailing the transactions. They also furnish the District with a month end summary.

Property taxes are attached as an enforceable lien on the property as of January 1st. Taxes are levied on October 1st and payable by January 31st. Taxes paid after January 31st are subject to penalty and interest. Taxes are considered delinquent after June 30th and are subject to attorney fees in addition to penalty and interest. The District's taxes are billed and collected by the county. The District's property tax revenues are recognized as collected.

The effective tax rate \$.10000 per \$100 valuation for the tax year 2016 was approved by the Board of Commissioners.

An analysis of taxes receivable for the year ended September 30, 2017:

| | |
|---|-------------------|
| Taxes receivable – September 30, 2017 | \$ 272,080 |
| Provision for uncollectible taxes | <u>(131,054)</u> |
| Net Taxes Receivable – September 30, 2017 | \$ <u>141,026</u> |

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

NOTE 4: CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2017 was as follows:

| Governmental Activities | Beginning Balance | Current Year Increases | Current Year Decreases | Ending Balance |
|---|-------------------|------------------------|------------------------|----------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 101,000 | \$ - | \$ - | \$ 101,000 |
| Total capital assets not being depreciated: | 101,000 | - | - | 101,000 |
| Capital assets being depreciated: | | | | |
| Buildings | \$ 2,643,352 | \$ - | \$ - | \$ 2,643,352 |
| Fire equipment and vehicles | 2,156,042 | 7,850 | - | 2,163,892 |
| Total capital assets being depreciated: | 4,799,394 | 7,850 | - | 4,807,244 |
| Less accumulated depreciation: | | | | |
| Buildings | (456,035) | (52,435) | - | (508,470) |
| Fire equipment and vehicles | (716,444) | (118,284) | - | (834,728) |
| Total accumulated depreciation | (1,172,479) | (170,719) | - | (1,343,198) |
| Total capital assets being depreciated, net | 3,626,915 | (162,869) | - | 3,464,046 |
| Governmental activities capital assets, net | \$ 3,727,915 | \$ (162,869) | \$ - | \$ 3,565,046 |

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

| | |
|--|------------|
| Fire and Emergency Services | \$ 170,719 |
| Total Depreciation Expense - Governmental Activities | \$ 170,719 |

NOTE 5: LONG TERM DEBT

On October 10, 2007 the District issued two notes with the United States Department of Agriculture (USDA), note # 1 for \$200,000 and note # 2 for \$1,375,000, both with interest rates ranging from 4.25% to 4.50%. The loans were used in the construction of the new fire station which is located at 2351 State Highway No. 12 in Orange County, Texas.

On October 18, 2012 the District issued a note with Government Capital Corporation for \$283,620 with interest rate 2.497%. The loan was used in the purchase of a new 2013 Tanker Fire Truck which is located at 2351 State Highway No. 12 in Orange County, Texas.

On February 20, 2014 the District issued a note with Government Capital Corporation for \$213,400 with interest rate 3.564%. The loan was used in the purchase of a new 2014 Tanker Fire Truck which is located at 2351 State Highway No. 12 in Orange County, Texas.

On February 1, 2016, the District issued a note with Government Capital Corporation for \$479,467 with interest rate 2.984%. The loan was used in the purchase of a new Spartan ERV Rescue Pumper which is located at 2351 State Highway No. 12 in Orange County, Texas.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5: LONG TERM DEBT Continued

Long-term liability activity for the year ended September 30, 2017, was as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|--------------------------------|----------------------|-----------|-------------------|---------------------|
| USDA Note # 1 | \$ 181,986 | | \$ 2,904 | \$ 179,082 |
| USDA Note # 2 | 1,266,562 | | 19,254 | 1,247,308 |
| Government Capital Corporation | 117,566 | | 58,058 | 59,508 |
| Government Capital corporation | 175,890 | | 19,388 | 156,502 |
| Government Capital corporation | 479,467 | | 41,855 | 437,612 |
| | <u>\$ 2,221,471</u> | <u>-</u> | <u>\$ 141,459</u> | <u>\$ 2,080,012</u> |

Annual requirements to maturity for the loans are as follows:

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|---------------------|---------------------|---------------------|
| 2018 | 143,937 | 84,898 | 228,835 |
| 2019 | 87,381 | 80,461 | 167,842 |
| 2020 | 90,438 | 77,403 | 167,841 |
| 2021 | 93,606 | 74,236 | 167,842 |
| 2022-2048 | 1,664,650 | 1,077,742 | 2,742,392 |
| Total | <u>\$ 2,080,012</u> | <u>\$ 1,394,740</u> | <u>\$ 3,474,752</u> |

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of losses related to theft of, damage to and destruction of fixed assets; error and omission; injuries to employees; and natural disasters. The District has obtained commercial insurance coverage for these risks and provided various employee education and prevention programs.

NOTE 7: GRANT AND CONTRIBUTION REVENUE

For the year ended September 30, 2017, the District received the following grants:

| | |
|--|------------------|
| Texas Forest Services Grant (Misc. Grants) | <u>\$ 10,863</u> |
| Total Grants | <u>\$ 10,863</u> |

NOTE 8: PENSION LIABILITY

Plan Description: The District provides retirement, disability, and death benefits for all of its employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS).

The plan provisions are adopted by the governing body of the employer, with the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 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 10 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits 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 contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer 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 purchase rate prescribed by the TCDRS Act.

Funding Policy: The employer has elected the annually determined contribution rate (ADCR) 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 employer contributed using the actuarially determined rates of 8.88% and 8.88% for the months of the accounting years 2016 and 2017 respectively.

The contribution rate payable by the employee members is the rate of 7.0% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

NOTE 8: PENSION LIABILITY Continued

Actuarial Assumptions – The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period of January 1, 2009 through December 31, 2012, except where required to be different by GASB 68. The following are the key assumptions and methods used for GASB 68 calculations:

| | |
|--|--|
| Valuation Timing | Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. |
| Actuarial Cost Method | Entry Age Normal (1) |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 0.0 years (based on contribution rate calculated in 12/31/16 valuation) |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 3% |
| Salary Increases | Varies by age and service. 4.9% average over career including inflation. |
| Investment Rate of Return | 8.00%, net of investment expenses, including inflation |
| Retirement Age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014. |
| Changes in Plan Provisions Reflected in the Schedule (1) | 2015: Employer contributions reflect that the current service matching rate was increased to 125% for future benefits. 2016: No changes in plan provisions |

(1) Only changes effective 2015 and later are shown in the Notes to Schedule.

Long-term expected rate of return – The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater, LLC. The numbers shown are based on January 2017 information for a 7-10 year horizon.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

NOTE 8: PENSION LIABILITY Continued

Note that the valuation assumption for a long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013, see Milliman's TCDRS Investigation of Experience report for the period January 1, 2009 - December 31, 2012.

| | | | |
|------------------------------------|--|--------|-------|
| US Equities | Dow Jones U.S. Total Stock Market Index | 13.50% | 4.70% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾ | 16.00% | 7.70% |
| Global Equities | MSCI World (net) index | 1.50% | 5.00% |
| International Equities | 50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index | 10.00% | 4.70% |
| - Developed | | | |
| International Equities | 50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index | 7.00% | 5.70% |
| - Emerging | | | |
| Investment-Grade Bonds | Barclays Capital Aggregate Bond Index | 3.00% | 0.60% |
| High-Yield Bonds | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 3.70% |
| Opportunistic Credit | Citigroup High-Yield Cash-Pay Capped Index | 2.00% | 3.83% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 10.00% | 8.15% |
| Distressed Debt | Cambridge Associates Distressed Securities Index ⁽⁴⁾ | 3.00% | 6.70% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index | 2.00% | 3.85% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 3.00% | 5.60% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index ⁽⁵⁾ | 6.00% | 7.20% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 20.00% | 3.85% |

⁽¹⁾ Target asset allocation adopted at the April 2016 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.7% per Cliffwater's 2016 capital market assumptions.

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

⁽⁴⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

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

Discount Rate Used – The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1) calculated using the municipal bond rate.

NOTE 8: PENSION LIABILITY Continued

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.105 to be gross of administrative expenses.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

NOTE 8: PENSION LIABILITY Continued

Sensitivity Analysis: The following presents the net pension liability of the county/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 | Current Discount Rate | 1% Increase |
|---------------------------------|-------------|-----------------------|-------------|
| | 7.10% | 8.10% | 9.10% |
| Total pension liability | \$ 481,454 | \$ 412,387 | \$ 356,187 |
| Fiduciary net position | 436,173 | 436,173 | 436,173 |
| Net pension liability / (Asset) | \$ 45,281 | \$ (23,786) | \$ (79,986) |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2017, the District reported a liability of \$(23,786) for its net pension liability. The net pension liability was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016.

Changes in Net Pension Liability / (Asset)

| Changes in Net Pension Liability / Asset | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability / (Asset) (a) - (b) |
|--|--------------------------------|-------------------------------|--|
| Balances as of December 31, 2015 | \$ 483,560 | \$ 418,065 | \$ 65,495 |
| Changes for the year: | | | |
| Service Cost | 35,350 | | 35,350 |
| (1) Interest on total pension liability | 38,147 | | 38,147 |
| (2) Effect of plan changes | - | | - |
| Effect of economic/demographic gains or losses | (83,601) | | (83,601) |
| Effect of assumptions changes or inputs | - | | - |
| Refund of contributions | (54,361) | (54,361) | - |
| Benefit payments | (6,708) | (6,708) | - |
| Administrative expenses | | (338) | 338 |
| Member contributions | | 19,655 | (19,655) |
| Net investment income | | 31,073 | (31,073) |
| Employer contributions | | 24,933 | (24,933) |
| (3) Other | - | 3,854 | (3,854) |
| Balances as of December 31, 2016 | \$ 412,387 | \$ 436,173 | \$ (23,786) |

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

(2) Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

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

NOTE 8: PENSION LIABILITY Continued

| Pension Expense / (Income) | January 1, 2016 to December 31, 2016 |
|---|---|
| Service Cost | \$ 35,350 |
| Interest on total pension liability (1) | 38,147 |
| Effect of plan changes | - |
| Administrative expenses | 338 |
| Member contributions | (19,655) |
| Expected investment return net of investment expenses | (33,348) |
| Recognition of deferred inflows/outflows of resources | |
| Recognition of economic/demographic gains or losses | (3,227) |
| Recognition of assumption changes or inputs | 399 |
| Recognition of investment gains or losses | 8,275 |
| Other (2) | (3,854) |
| Pension Expense / (income) | \$ 22,425 |

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

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

Deferred Inflows / Outflows of Resources:

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

| Deferred Inflows / Outflows of Resources | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> |
|--|--|---|
| Differences between expected and actual experience | \$ 66,881 | \$ 27,036 |
| Change of assumptions | 0 | 1,196 |
| Net difference between projected and actual earnings | 0 | 24,274 |
| Contributions made subsequent to measurement date | N/A | 34,492 |

ORANGE COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

NOTE 8: PENSION LIABILITY Continued

Amounts reported as deferred outflows of resources and relate to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

| Year ended December 31: | |
|-------------------------|----------|
| 2017 | \$5,447 |
| 2018 | 5,447 |
| 2019 | (9,003) |
| 2020 | (16,265) |
| 2021 | 0 |
| Thereafter (1) | 0 |

- (1) *Total remaining balance to be recognized in future years, if any. Note that additional future deferred inflows and outflows of resources may impact these numbers.*

NOTE 9: OTHER INFORMATION

A. Subsequent Events

The Orange County Emergency Services District # 1 has evaluated subsequent events through February 12, 2018, the date on which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes, penalties and interest | \$ 1,281,805 | \$ 1,281,805 | \$ 1,297,842 | \$ 16,037 |
| Charges for services | 26,000 | 26,000 | 15,195 | |
| Grant income | 8,966 | 8,966 | 10,863 | |
| Other miscellaneous | 100 | 100 | 14,097 | 13,997 |
| Total revenue | <u>1,316,871</u> | <u>1,316,871</u> | <u>1,337,997</u> | <u>21,126</u> |
| EXPENDITURES | | | | |
| Human resources | 810,448 | 810,448 | 825,805 | (15,357) |
| Supplies | 137,775 | 137,775 | 125,999 | 11,776 |
| Contract services | 130,625 | 130,625 | 117,932 | 12,693 |
| Capital acquisitions | 9,000 | 9,000 | 7,881 | 1,119 |
| Debt service | 229,023 | 229,023 | 228,836 | 187 |
| Total expenditures | <u>1,316,871</u> | <u>1,316,871</u> | <u>1,306,453</u> | <u>10,418</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | | | | |
| | - | - | 31,544 | 31,544 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from loan | - | - | - | - |
| Sale of general capital assets | - | - | - | - |
| Total other financing sources and uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | | | | |
| | - | - | 31,544 | 31,544 |
| FUND BALANCES AT BEGINNING OF YEAR | | | | |
| | <u>593,732</u> | <u>593,732</u> | <u>593,732</u> | <u>-</u> |
| FUND BALANCE AT END OF YEAR | | | | |
| | <u>\$ 593,732</u> | <u>\$ 593,732</u> | <u>\$ 625,276</u> | <u>\$ 31,544</u> |

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

Schedule of Changes in Net Pension Liability and Related Ratios

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|-------------|------------|------------|------|------|------|------|------|------|------|
| Total Pension Liability | | | | | | | | | | |
| Service cost | \$ 35,350 | \$ 31,793 | \$ 17,407 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Interest on total pension liability | 38,147 | 35,519 | 25,736 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Effect of plan changes | - | (9,119) | 23,340 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Effect of assumption changes or inputs | - | 1,994 | - | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Effect of economic demographic (gains) or losses | (83,601) | 253 | 67,212 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Benefit payments/refunds of contributions | (61,069) | (6,455) | (3,665) | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Net change in total pension liability | (71,173) | 53,985 | 130,030 | | | | | | | |
| Total pension liability, beginning | 483,560 | 429,574 | 299,545 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Total pension liability, ending (a) | \$ 412,387 | \$ 483,560 | \$ 429,574 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Fiduciary Net Position | | | | | | | | | | |
| Employer contributions | 24,933 | 22,067 | 8,251 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Member contributions | 19,655 | 17,394 | 12,278 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Investment income net of investment expense | 31,073 | (1,240) | 23,789 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Benefit payments/refunds of contributions | (61,069) | (6,455) | (3,665) | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Administrative expenses | (388) | (290) | (281) | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Other | 3,854 | 1,870 | 143 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Net change in fiduciary net position | 18,108 | 33,347 | 40,515 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Fiduciary net position, beginning | 418,065 | 384,718 | 344,203 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Fiduciary net position, ending (b) | \$ 436,173 | \$ 418,065 | \$ 384,718 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Net pension liability / (asset), ending = (a) - (b) | \$ (23,786) | \$ 65,495 | \$ 44,856 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Fiduciary net position as a % of total pension liability | 105.77% | 86.46% | 89.56% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Pensionable covered payroll | \$ 248,491 | \$ 248,491 | \$ 245,562 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Net pension liability as a % of covered payroll | -9.57% | 26.36% | 18.27% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

Schedule of Employer Contributions

| Year Ending December 31 | Actuarially Determined Contribution (a) | Actual Employer Contribution | Contribution Deficiency (Excess) | Pensionable Covered Payroll (b) | Actual Contribution as a % of Covered Payroll |
|--|--|---|---|--|--|
| 2007 | 7,499 | 7,499 | 0 | 204,323 | 3.7% |
| 2008 | 7,778 | 7,778 | 0 | 228,755 | 3.4% |
| 2009 | 6,146 | 6,146 | 0 | 195,098 | 3.1% |
| 2010 | 7,864 | 7,864 | 0 | 218,444 | 3.6% |
| 2011 | 9,635 | 9,635 | 0 | 266,163 | 3.6% |
| 2012 | 8,845 | 9,163 | (318) | 283,486 | 3.2% |
| 2013 | 8,853 | 8,871 | (18) | 270,720 | 3.3% |
| 2014 | 8,251 | 8,251 | 0 | 245,562 | 3.4% |
| 2015 | 22,067 | 22,067 | 0 | 248,491 | 8.9% |
| 2016 | 24,933 | 24,933 | 0 | 280,779 | 8.9% |

(a) TCDRS calculates actuarially determined contribution on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

(b) Payroll is calculated based on contributions as reported to TCDRS.

COMPLIANCE SECTION

J. R. Edwards & Associates, LLC

Certified Public Accountants

February 12, 2018

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Orange County Emergency Services District No. 1
Orange County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of Orange County Emergency Services District No. 1 (District), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 12, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Orange County Emergency Services District No. 1 financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

J.R. Edwards & Associates, LLC