

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2

REEVES COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2

REEVES COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Reeves County Emergency
Services District No. 2
Reeves County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Reeves County Emergency Services District No. 2 (the "District") as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the District as of December 31, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, the District implemented Governmental Accounting Standards Board Statement No. 96 in fiscal year ending 2023. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund and the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of District Contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 25, 2024

**REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Management's discussion and analysis of Reeves County Emergency Services District No. 2's (the "District") financial performance provides an overview of the District's financial activities for the year ended December 31, 2023. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) fund financial statements and government-wide financial statements and (2) notes to the financial statements. The fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective like that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources, with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal period. All current period revenues and expenses are included regardless of when cash is received or paid.

**REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

FUND FINANCIAL STATEMENTS

The combined statements also include 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 objectives. The District has one governmental fund type. The General Fund accounts for resources not accounted for in another fund, property tax revenues, costs of assessing and collecting taxes, District services and general expenditures.

Governmental funds are reported in each of the financial statements. The focus in the fund financial statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$64,215,873 as of December 31, 2023.

The following is a comparative analysis of government-wide changes in net position:

**REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following is an analysis of government-wide changes in net position:

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2023</u>	<u>2022</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 84,218,462	\$ 60,789,323	\$ 23,429,139
Capital Assets and Right-of-Use Assets			
Net of Depreciation and Amortization	<u>22,225,674</u>	<u>13,787,472</u>	<u>8,438,202</u>
Total Assets	<u>\$ 106,444,136</u>	<u>\$ 74,576,795</u>	<u>\$ 31,867,341</u>
Deferred Outflows of Resources	<u>\$ 429,356</u>	<u>\$ 199,301</u>	<u>\$ 230,055</u>
Long-Term Liabilities	\$ 11,524,101	\$ 2,953,035	\$ (8,571,066)
Current and Other Liabilities	<u>3,078,508</u>	<u>1,211,922</u>	<u>(1,866,586)</u>
Total Liabilities	<u>\$ 14,602,609</u>	<u>\$ 4,164,957</u>	<u>\$ (10,437,652)</u>
Deferred Inflows of Resources	<u>\$ 28,055,010</u>	<u>\$ 25,735,456</u>	<u>\$ (2,319,554)</u>
Net Position:			
Net Investment in Capital Assets	\$ 8,884,140	\$ 10,121,484	\$ (1,237,344)
Restricted	1,697,331		1,697,331
Unrestricted	<u>53,634,402</u>	<u>34,754,199</u>	<u>18,880,203</u>
Total Net Position	<u>\$ 64,215,873</u>	<u>\$ 44,875,683</u>	<u>\$ 19,340,190</u>

The following table provides a summary of the District's operations for the year ended December 31, 2023, and year ended December 31, 2022.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2023</u>	<u>2022</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 23,110,445	\$ 22,369,347	\$ 741,098
Other Revenues	<u>4,025,220</u>	<u>822,836</u>	<u>3,202,384</u>
Total Revenues	<u>\$ 27,135,665</u>	<u>\$ 23,192,183</u>	<u>\$ 3,943,482</u>
Expenses for Services	<u>7,795,475</u>	<u>5,276,137</u>	<u>(2,519,338)</u>
Change in Net Position	\$ 19,340,190	\$ 17,916,046	\$ 1,424,144
Net Position, Beginning of Year	<u>44,875,683</u>	<u>26,959,637</u>	<u>17,916,046</u>
Net Position, End of Year	<u>\$ 64,215,873</u>	<u>\$ 44,875,683</u>	<u>\$ 19,340,190</u>

**REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's General Fund fund balance as of December 31, 2023, was \$52,384,555, an increase of \$22,903,353 primarily due to property tax revenues exceeding service operations and capital costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Commissioners amended the budget during the current year to increase investment revenues and to decrease estimated property tax revenues, estimated salaries and benefit costs and estimated professional services. Actual revenues were \$2,578,212 more than budgeted revenues, actual expenditures were \$3,784,728 less than budgeted expenditures and note proceeds were \$10,244,742 more than budgeted proceeds, which resulted in a positive variance of \$16,607,683. See budget versus actual comparison for more information.

CAPITAL ASSETS

Capital assets as of December 31, 2023, total \$22,049,588 (net of accumulated depreciation) and include land, buildings, equipment and vehicles.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2023	2022	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land	\$ 839,022	\$ 562,320	\$ 276,702
Construction in Progress	18,252,381	10,076,913	8,175,468
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	1,283,972	1,315,745	(31,773)
Equipment and Vehicles	1,674,213	1,832,494	(158,281)
Total Net Capital Assets	\$ 22,049,588	\$ 13,787,472	\$ 8,262,116

LONG-TERM DEBT ACTIVITY

As of December 31, 2023, the District had debt payable of \$13,197,778. The changes in the debt position of the District during the year ended December 31, 2023, are summarized as follows:

Notes Payable, January 1, 2023	\$ 3,665,988
Add: Note Proceeds	10,244,743
Less: Principal Paid	712,953
Notes Payable, December 31, 2023	\$ 13,197,778

See also Note 12 for information related to the District's subscription liability.

**REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Reeves County Emergency Services District No. 2, 2269 Ocotillo Drive, Pecos, Texas 79772.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2023

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 12,699,164	\$	\$ 12,699,164
Investments	39,935,031		39,935,031
Cash with Reeves County	865,634		865,634
Receivables: Property Taxes	29,723,291		29,723,291
Other	994,767		994,767
Net Pension Asset		575	575
Right-of-Use Subscription-Based Service Asset		176,086	176,086
Land		839,022	839,022
Construction in Progress		18,252,381	18,252,381
Capital Assets (Net of Accumulated Depreciation)		2,958,185	2,958,185
TOTAL ASSETS	\$ 84,217,887	\$ 22,226,249	\$ 106,444,136
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - Pensions	\$ - 0 -	\$ 429,356	\$ 429,356
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 84,217,887	\$ 22,655,605	\$ 106,873,492
LIABILITIES			
Accounts Payable	\$ 235,426	\$	\$ 235,426
Due to Other Governmental Units	259,853		259,853
Retainage Payable	685,650		685,650
Accrued Interest Payable		80,146	80,146
Long-Term Liabilities:			
Subscription Payable, Due Within One Year		70,125	70,125
Subscription Payable, Due After One Year		73,631	73,631
Notes Payable, Due Within One Year		1,747,308	1,747,308
Notes Payable, Due After One Year		11,450,470	11,450,470
TOTAL LIABILITIES	\$ 1,180,929	\$ 13,421,680	\$ 14,602,609
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	\$ 30,652,403	\$ (2,598,168)	\$ 28,054,235
Deferred Inflows - Pensions		775	775
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 30,652,403	\$ (2,597,393)	\$ 28,055,010
FUND BALANCE			
Restricted for Debt Service	\$ 1,697,331	\$ (1,697,331)	\$
Unassigned	50,687,224	(50,687,224)	
TOTAL FUND BALANCE	\$ 52,384,555	\$ (52,384,555)	\$ - 0 -
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 84,217,887		
NET POSITION			
Net Investment in Capital Assets		\$ 8,884,140	\$ 8,884,140
Restricted		1,697,331	1,697,331
Unrestricted		53,634,402	53,634,402
TOTAL NET POSITION		\$ 64,215,873	\$ 64,215,873

The accompanying notes to the financial statements are an integral part of this report.

**REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2023**

Total Fund Balance - Governmental Fund \$ 52,384,555

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

Capital assets and right-of-use assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 22,225,674

Deferred inflows of resources related to property tax revenues for the 2022 tax levy became part of recognized revenues in the governmental activities of the District. 2,598,168

Portions of the change in net pension asset that are not immediately recognized as pension expense are recorded as deferred outflows and inflows of resources. 429,156

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Accrued Interest Payable	\$ (80,146)	
Subscription Payable, Due Within One Year	(70,125)	
Subscription Payable, Due After One Year	(73,631)	
Notes Payable Within One Year	(1,747,308)	
Notes Payable After One Year	<u>(11,450,470)</u>	<u>(13,421,680)</u>

Total Net Position - Governmental Activities \$ 64,215,873

The accompanying notes to the financial statements are an integral part of this report.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property Taxes	\$ 25,589,103	\$ (2,478,658)	\$ 23,110,445
Penalty and Interest	133,528		133,528
Investment Revenues	2,331,141		2,331,141
Ambulance Revenues	1,520,179		1,520,179
Miscellaneous Revenues	66,893	(26,521)	40,372
TOTAL REVENUES	<u>\$ 29,640,844</u>	<u>\$ (2,505,179)</u>	<u>\$ 27,135,665</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Operating Expenses	\$ 257,844	\$	\$ 257,844
Professional Services	2,182,918	(66,785)	2,116,133
Repairs and Maintenance	700,451		700,451
Supplies	146,847		146,847
Training and Travel	63,866		63,866
Utilities	60,916		60,916
Salaries and Benefits	3,969,941	(232,985)	3,736,956
Depreciation/Amortization		392,831	392,831
Other	127,251		127,251
Capital Outlay	8,707,924	(8,647,013)	60,911
Debt Service:			
Note Principal	712,953	(712,953)	
Note Interest	51,323	80,146	131,469
TOTAL EXPENDITURES/EXPENSES	<u>\$ 16,982,234</u>	<u>\$ (9,186,759)</u>	<u>\$ 7,795,475</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 12,658,610</u>	<u>\$ 6,681,580</u>	<u>\$ 19,340,190</u>
OTHER FINANCING SOURCES (USES)			
Note Proceeds	<u>\$ 10,244,743</u>	<u>\$ (10,244,743)</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 22,903,353	\$ (22,903,353)	\$
CHANGE IN NET POSITION		19,340,190	19,340,190
FUND BALANCE/NET POSITION - JANUARY 1, 2023	<u>29,481,202</u>	<u>15,394,481</u>	<u>44,875,683</u>
FUND BALANCE/NET POSITION - DECEMBER 31, 2023	<u>\$ 52,384,555</u>	<u>\$ 11,831,318</u>	<u>\$ 64,215,873</u>

The accompanying notes to the financial
statements are an integral part of this report.

**REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

Net Change in Fund Balance - Governmental Fund	\$ 22,903,353
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.	(2,478,658)
The changes in the net pension liability as well as deferred inflows and outflows of resources - pension are recorded as pension expense in the government-wide financial statements.	232,985
Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(392,831)
Governmental funds report capital asset costs as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital asset purchases are expensed in the Statement of Activities.	8,647,013
Governmental funds do not record the loss from the sale or disposal of assets. However, in the Statement of Net Assets the assets are removed and a loss is recorded in the Statement of Activities.	(26,521)
Governmental funds report principal payments and subscription payments on long-term liabilities as expenditures in the year paid. However, in the government-wide financial statements, liabilities are reduced when principal payments are made and the Statement of Activities is not affected.	779,738
Governmental funds report interest payments on long-term debt as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on long-term debt through the fiscal year-end.	(80,146)
Governmental funds report note proceeds as other financing sources. However, in the government-wide financial statements, the issuance of debt increases long-term liabilities and does not affect the Statement of Activities.	<u>(10,244,743)</u>
Change in Net Position - Governmental Activities	<u>\$ 19,340,190</u>

The accompanying notes to the financial statements are an integral part of this report.

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REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1. CREATION OF DISTRICT

Reeves County Emergency Services District No. 2 (the “District”), located in Reeves County, Texas, was created by the Commissioners’ Court of Reeves County on May 28, 2019, in accordance with Article III, Section 48-e, of the Texas Constitution. The District operates under Chapter 775 of the Health and Safety Code. The District was established to provide funds for the contracting of emergency services within the boundaries of the District.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”).

The District is a political subdivision of the State of Texas governed by an appointed board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenues and expenses in the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Governmental Fund Balance Sheet and a Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Funds

The District has one governmental fund; therefore, this fund is a major fund.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Fund Financial Statements (Continued)

General Fund - To account for resources not required to be accounted for in another fund, property tax revenues, costs of assessing and collecting taxes and general expenditures.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in governmental funds to be available if they are collectable within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenues include the 2022 tax levy collections during the period October 1, 2022, to December 31, 2023, and taxes collected from January 1, 2023, to December 31, 2023, for all prior tax levies. The 2023 tax levy has been fully deferred to meet the District’s planned expenditures in the 2024 fiscal year.

Capital Assets

Capital assets, which include land, buildings and equipment, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expenditure in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset after completion. Installation costs, professional fees and certain other costs are capitalized as part of the asset.

Personal tangible assets (computers, office machines, office furniture, etc.) and all other capital assets (including installation costs and professional fees) are capitalized if they have an original cost of \$50,000 or more and a useful life of at least two years. Depreciation is calculated on each

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Furniture and Equipment	5-20
Vehicles	7-15

In accordance with GASB Statement No. 96, the District records its subscription based accounting software as an intangible asset (see Note 11). The right-to-use asset is being amortized over the same term as the subscription contract using the straight-line method of amortization.

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Commissioners. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and amended, if any, budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

The District makes payments into the social security system for the employees. The Internal Revenue Service has determined that fees of office received by Commissioners are wages subject to federal income tax withholding for payroll tax purposes only. See Note 9 for the District’s pension plan.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets, liabilities, and deferred inflows and outflows of resources associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Governmental Fund Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriate resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Commissioners. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. The District does not have any assigned balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

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

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3. TAX LEVY

On May 4, 2019, the voters of the District approved a maximum tax rate of \$0.10 per \$100 of assessed valuation on all taxable property within the District. During the year ending December 31, 2023, the District levied an ad valorem tax at the rate of \$0.07898348 per \$100 of assessed valuation, which resulted in a tax levy of \$28,054,235 on the on the adjusted taxable valuation of \$35,502,863,574 for the 2023 tax year.

All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At December 31, 2023, the carrying amount of the District’s deposits was \$12,699,164 and the bank balance was \$12,745,789. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Position at December 31, 2023, as listed below:

	Cash
GENERAL FUND	\$ 12,699,164

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Commissioners.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Hermes, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all of its portfolio assets at amortized cost. As a result, the District also measures its investment in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

The District invests in Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District’s position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas Class.

As of December 31, 2023, the District had the following investments:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities of Less Than 1 Year</u>
<u>GENERAL FUND</u>		
TexPool	\$22,523,564	\$ 22,523,564
Texas CLASS	<u>17,411,467</u>	<u>17,411,467</u>
TOTAL INVESTMENTS	<u>\$39,935,031</u>	<u>\$ 39,935,031</u>

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2023, the District's investments in TexPool and Texas CLASS were rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and Texas CLASS to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 is as follows:

	January 1, 2023	Increases	Decreases	December 31, 2023
Capital Assets Not Being Depreciated				
Land	\$ 562,320	\$ 276,702	\$	\$ 839,022
Construction in Progress	<u>10,076,913</u>	<u>8,647,013</u>	<u>471,545</u>	<u>18,252,381</u>
Total Capital Assets Not Being Depreciated	<u>\$ 10,639,233</u>	<u>\$ 8,923,715</u>	<u>\$ 471,545</u>	<u>\$ 19,091,403</u>
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 1,342,982	\$ 1,954	\$	\$ 1,344,936
Equipment and Vehicles	<u>2,216,545</u>	<u>192,889</u>	<u>40,843</u>	<u>2,368,591</u>
Total Capital Assets Subject to Depreciation	<u>\$ 3,559,527</u>	<u>\$ 194,843</u>	<u>\$ 40,843</u>	<u>\$ 3,713,527</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ 27,237	\$ 33,727	\$	\$ 60,964
Equipment and Vehicles	<u>384,051</u>	<u>324,649</u>	<u>14,322</u>	<u>694,378</u>
Total Accumulated Depreciation	<u>\$ 411,288</u>	<u>\$ 358,376</u>	<u>\$ 14,322</u>	<u>\$ 755,342</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 3,148,239</u>	<u>\$ (163,533)</u>	<u>\$ 26,521</u>	<u>\$ 2,958,185</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 13,787,472</u>	<u>\$ 8,760,182</u>	<u>\$ 498,066</u>	<u>\$ 22,049,588</u>

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 6. CONTRACT FOR PROVIDING EMERGENCY SERVICES

On August 30, 2021, the District has contracted with American Medical Response, Inc (the “Provider”) for ambulance and emergency services to the persons and commercial interests within the boundaries of the District. This agreement was terminated, effective December 31, 2023.

NOTE 7. RISK MANAGEMENT

Section 775.033 of the Texas Health and Safety Code states that a District is not liable for a claim arising from the act or omission of an employee or volunteer under an oral or written contract with the District if the act or omission: (1) is in the course and scope of the employee’s or volunteer’s duties for the District; (2) takes place or during the provision of emergency services; (3) is not in violation of a statute or ordinance applicable to emergency action; and (4) is not willful or wantonly negligent. The District is exposed to liability for all other acts or omissions outside the scope of this Section of the Texas Health and Safety Code, for which the District carries commercial insurance. There have been no significant reductions in coverages from the prior year and no claims have been filed to date.

NOTE 8. INTERLOCAL AGREEMENTS

On, December 18, 2019, the District and Reeves County Emergency Services District No. 1, (“RCESD No. 1”) entered into an interlocal agreement for funding and oversight of the joint emergency services chief. The District has entered into an Agreement for Employment with an individual to serve as the Emergency Services Chief to oversee the joint operations and administration of the Districts. RCESD No. 1 agreed to fund their 50% of the Emergency Services Chief’s salary and benefits and to provide oversight with the District. On March 17, 2020, this agreement was amended to include the joint emergency services employees, capital and operational expenses, and real estate acquisitions and holdings. On September 14, 2023, this agreement was amended to clarify a) costs and oversight of joint employees, including the Joint Emergency Services Chief position; b) costs for: 1) joint office and administrative expenses, 2) joint command vehicle(s), and 3) real estate and construction for property intended to be jointly held and utilized by the Districts; and c) provide the Advisory Committee some authority to approve and oversee such matters, all of which are for the benefit of both Districts. The term of this agreement is 40 years.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 9. PENSION PLAN

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional 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 850 non-traditional 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 written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Benefits Provided

The plan provisions are adopted by the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 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 the District.

Benefit amounts are determined by the sum of the employee’s deposits 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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

At December 31, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-0-
Inactive employees entitled but not yet receiving benefits	1
Active employees	25

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 9. PENSION PLAN (Continued)

Contributions

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 rate of 8.24% for the months of the 2023 accounting. The deposit rate payable by the employee members for calendar years 2023 is 7.00% as adopted by the governing body of the District. The employee deposit rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

For the District’s accounting year ended December 31, 2023, the annual pension cost for the TCDRS plan for its employees was \$272,229; the actual contributions were \$272,229. The employees contributed \$206,526 to the plan for the 2023 fiscal year.

Actuarial Assumptions

The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumption:

Actuarial valuation date	12/31/22
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining Amortization period	19.5 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment return ¹	7.50%
Projected salary increases ¹	4.70%
Inflation	2.50%
Cost-of-living adjustments	0.00%

¹ Includes inflation at the stated rate

The demographic assumptions were developed from an actuarial experience investigation of TCDRS over the years 2017-2020. They were recommended by Milliman and adopted by the TCDRS Board of Trustees in December of 2021. All economic assumptions were recommended by Milliman and adopted by the TCDRS Board of Trustees in March of 2021. These assumptions, except where required to be different by GASB 68, are used to determine the total pension liability as of December 31, 2022. The assumptions are reviewed annually for continued compliance with the relevant actuarial standards of practice.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 9. PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

Mortality rates were based on the following:

Depositing members – 135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Service retirees, beneficiaries and non-depositing members – 135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Disabled retirees – 160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Discount Rate

The discount rate used to measure the total pension liability was 7.6%. The discount did not change from the previous year.

In order to determine the discount rate to be used, the actuary used an alternative method to determine the sufficiency of the fiduciary net position in all future years. This alternative method reflects the funding requirements under the 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 cost-of-living adjustment 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.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 9. PENSION PLAN (Continued)

Discount Rate (Continued)

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 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. Therefore, the actuary has used a discount rate of 7.60%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.5%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

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 2023 information for a 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is based on a long-term time horizon. The TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. Milliman relies on the expertise of Cliffwater in this assessment.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	11.50%	4.95%
Global Equities	2.50%	4.95%
International Equities-Development	5.00%	4.95%
International Equities-Emerging	6.00%	4.95%
Investment-Grade Bonds	3.00%	2.40%
Strategic Credit	9.00%	3.39%
Direct Lending	16.00%	6.95%
Distressed Debt	4.00%	7.60%
REIT Equities	2.00%	4.15%
Master Limited Partnerships (MLPs)	2.00%	5.30%
Private Real Estate Partnerships	6.00%	5.70%
Private Equity	25.00%	7.95%
Hedge Funds	6.00%	2.90%
Cash Equivalents	2.00%	0.20%

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 9. PENSION PLAN (Continued)

Changes in Net Pension Liability/(Asset) for the measurement year ended December 31, 2022 are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances of December 31, 2021	\$ 42,548	\$ 42,581	\$ (33)
Changes for the year:			
Service Costs	87,979		87,979
Interest on the Total Pension Liability	9,920		9,920
Effect of Economic/Demographic Gains or Losses	114,759		114,759
Effect of Assumptions Changes or Inputs			
Administrative Expenses		(150)	150
Member Contributions		91,842	(91,842)
Net investment income		(19,932)	19,932
Employer Contributions		112,618	(112,618)
Other		28,822	(28,822)
Balances of December 31, 2022	<u>\$ 255,206</u>	<u>\$ 255,781</u>	<u>\$ (575)</u>

Sensitivity Analysis - The following presents the net pension liability/(asset) of the District, calculated using the discount rate of 7.60%, as well as what the District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate.

	1%	Current	1%
	Decrease	Discount Rate	Increase
	6.60%	7.60%	8.60%
Total Pension Liability	\$ 320,471	\$ 255,206	\$ 205,012
Fiduciary Net Position	<u>255,781</u>	<u>255,781</u>	<u>255,781</u>
Net Pension Liability/(Asset)	<u>\$ 64,690</u>	<u>\$ (575)</u>	<u>\$ (50,769)</u>

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 9. PENSION PLAN (Continued)

As of December 31, 2023, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of resources	Deferred Outflows of resources
Differences between expected and actual experience	\$ - 0 -	\$ 133,332
Changes in assumptions	775	31
Net difference between projected and actual earnings		23,764
Contributions paid to TCDRS subsequent to the measurement date		272,229
Total	<u>\$ 775</u>	<u>\$ 429,356</u>

\$272,229 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2023 (i.e. to be recognized in the District's financial statements dated December 31, 2023). Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2023	\$ 19,373
2024	19,373
2025	19,367
2026	19,947
2027	13,547
Thereafter	64,718

NOTE 10. GROUP TERM LIFE INSURANCE

The District participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & 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, if elected by employers, to retired employees.

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. 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.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 10. GROUP TERM LIFE INSURANCE (Continued)

Funding Policy: 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's contribution to the GTLF for the years ending December 31, 2023, 2022, and 2021 were \$2,064, \$1,248 and \$128, respectively, which equaled the contractually required contribution.

NOTE 11. NOTES PAYABLE

On December 15, 2020, the District entered into a \$5,062,500 promissory note with Government Capital Corporation to finance the fire station facilities and a communications tower. This note is secured with ad valorem tax funds. Beginning December 29, 2021 and ending December 29, 2027, annual installments of \$764,277.26 are due each December 29th. The interest rate is 1.40%.

On November 14, 2023, the District entered into a \$10,244,743 real estate improvement and apparatus loan agreement with ZMFU II, Inc to finance the purchase and construction of the North Pecos Station No. 4 and training facilities and the acquisition of various apparatus. This note is secured with ad valorem tax funds. Beginning August 1, 2024 the District will make an payment of \$1,388,259, and from August 1, 2025 and ending August 1, 2033, annual installments of \$1,300,317 are due each August 1st. The interest rate is 4.98%.

The following is a summary of transactions regarding notes payable for the year ended December 31, 2023:

Notes Payable, January 1, 2023	\$ 3,665,988
Add: Note Proceeds	10,244,743
Less: Principal Paid	<u>712,953</u>
Notes Payable, December 31, 2023	<u>\$ 13,197,778</u>
Notes Payable:	
Due Within One Year	\$ 1,747,308
Due After One Year	<u>11,450,470</u>
Notes Payable, December 31, 2023	<u>\$ 13,197,778</u>

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 11. NOTES PAYABLE (Continued)

As of December 31, 2023, the debt service requirements on the notes payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,747,308	\$ 405,228	\$ 2,152,536
2025	1,570,486	494,109	2,064,595
2026	1,622,453	442,142	2,064,595
2027	1,675,639	388,955	2,064,594
2028	967,876	332,441	1,300,317
2029-2033	<u>5,614,016</u>	<u>887,570</u>	<u>6,501,586</u>
	<u>\$13,197,778</u>	<u>\$ 2,950,445</u>	<u>\$16,148,223</u>

NOTE 12. SUBSCRIPTION-BASED SERVICE AGREEMENT

In accordance with the requirements of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, which was required to be implemented in the current fiscal year, the District recorded a right-to-use asset and related subscription payable in its financial statements pertaining to the subscription service agreements.

The District has a subscription service agreement with Tyler Technologies dated January 25, 2021, and as amended most recently on September 8, 2023. The term of the agreement is five years.

Annual payments are due in March of each year in the amount of \$58,018 and split 50/50 with ESD 1. The District's share of current year subscription payments totaled \$29,009 with \$25,058 allocated to principal and the remainder to interest.

The District also has a subscription service agreement with CentralSquare Technologies LLC dated November 18, 2021, The term of the agreement is five years. Annual payments of \$48,304 are due in November of each year. The District's current year subscription payments totaled \$48,304 with \$41,727 allocated to principal and the remainder to interest.

The subscription liabilities was measured using the remaining subscription term and discount rate of 5.00% as of the beginning of the current period and the right-to-use asset was measured based on the subscription liability at that date which resulted in no restatement of the beginning net position.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 12. SUBSCRIPTION-BASED SERVICE AGREEMENT (Continued)

Right-to-use assets, current amortization expense, and accumulated amortization are summarized in the following table.

	January 1, 2023	Increases	Decreases	December 31, 2023
Intangible Assets Subject to Amortization				
Subscription Based Service	\$ 334,723	\$	\$	\$ 334,723
Accumulated Amortization				
Subscription Based Service	<u>124,182</u>	<u>34,455</u>	<u></u>	<u>158,637</u>
Total Intangible Assets, Net of Accumulated Amortization	<u>\$ 210,541</u>	<u>\$ 34,455</u>	<u>\$ - 0 -</u>	<u>\$ 176,086</u>

The change in subscription payable during the current fiscal year is summarized in the following table:

	January 1, 2023	Additions	Retirements	December 31, 2023
Subscription Payable	<u>\$ 210,541</u>	<u>\$ -0-</u>	<u>\$ 66,785</u>	<u>\$ 143,756</u>

Future subscription payments, including the amount due within one year and amounts due after one year, are summarized in the following tables:

Fiscal Year	Principal	Interest	Total
2024	\$ 70,125	\$ 7,188	\$ 77,313
2025	<u>73,631</u>	<u>3,682</u>	<u>77,313</u>
	<u>\$ 143,756</u>	<u>\$ 10,870</u>	<u>\$ 154,626</u>

Amount Due Within One Year	\$ 70,125
Amount Due After One Year	<u>73,631</u>
Total Subscription Payable	<u>\$ 143,756</u>

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 39,415,043	\$ 24,453,794	\$ 25,589,103	\$ 1,135,309
Penalty and Interest	101,000	101,000	133,528	32,528
Investment Revenues	70,000	2,002,838	2,331,141	328,303
Ambulance Revenues	500,000	500,000	1,520,179	1,020,179
Miscellaneous Revenues	<u>5,000</u>	<u>5,000</u>	<u>66,893</u>	<u>61,893</u>
TOTAL REVENUES	<u>\$ 40,091,043</u>	<u>\$ 27,062,632</u>	<u>\$ 29,640,844</u>	<u>\$ 2,578,212</u>
EXPENDITURES				
Service Operations:				
Operating Expenses	\$ 762,450	\$ 792,615	\$ 257,844	\$ 534,771
Professional Services	3,645,616	2,428,586	2,182,918	245,668
Repairs and Maintenance	620,000	650,000	700,451	(50,451)
Supplies	170,000	185,000	146,847	38,153
Training and Travel	117,000	115,000	63,866	51,134
Salaries and Benefits	9,677,093	6,275,546	3,969,941	2,305,605
Utilities	196,051	202,051	60,916	141,135
Other			127,251	(127,251)
Capital Outlay	9,353,887	9,353,887	8,707,924	645,963
Debt Service	<u>764,277</u>	<u>764,277</u>	<u>764,276</u>	<u>1</u>
TOTAL EXPENDITURES	<u>\$ 25,306,374</u>	<u>\$ 20,766,962</u>	<u>\$ 16,982,234</u>	<u>\$ 3,784,728</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 14,784,669</u>	<u>\$ 6,295,670</u>	<u>\$ 12,658,610</u>	<u>\$ 6,362,940</u>
OTHER FINANCING SOURCES(USES)				
Note Proceeds	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 10,244,743</u>	<u>\$ 10,244,743</u>
NET CHANGE IN FUND BALANCE	\$ 14,784,669	\$ 6,295,670	\$ 22,903,353	\$ 16,607,683
FUND BALANCE - JANUARY 1, 2023	<u>29,481,202</u>	<u>29,481,202</u>	<u>29,481,202</u>	<u></u>
FUND BALANCE - DECEMBER 31, 2023	<u>\$ 44,265,871</u>	<u>\$ 35,776,872</u>	<u>\$ 52,384,555</u>	<u>\$ 16,607,683</u>

See accompanying independent auditor's report.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
FOR THE YEAR ENDED DECEMBER 31, 2023

	Measurement Date 12/31/2022	Measurement Date 12/31/2021	Year Ended December 31, 12/31/2020
Total Pension Liability			
Service Cost	\$ 87,979	\$ 7,003	\$ 397
Interest (on the Total Pension Liability)	9,920	568	32
Effect of assumption changes or inputs		(947)	43
Effect of economic/dempgraphic (gains or losses	<u>114,759</u>	<u>35,452</u>	<u> </u>
Net change in total pension liability	\$ 212,658	\$ 42,076	\$ 472
Total pension liability, beginning	<u>42,548</u>	<u>472</u>	<u> </u>
Total pension liability, ending (a)	<u>\$ 255,206</u>	<u>\$ 42,548</u>	<u>\$ 472</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 112,618	\$ 19,732	\$ 349
Contributions - employee	91,842	16,823	296
Net investment income	(19,932)	4,348	1
Benefit payments, including refunds of employee contributions			
Administrative Expense	(150)	(23)	
Other	<u>28,822</u>	<u>1,036</u>	<u>19</u>
Net Change in plan fiduciary net position	\$ 213,200	\$ 41,916	\$ 665
Plan Fiduciary net position, beginning	<u>42,581</u>	<u>665</u>	<u> </u>
Plan Fiduciary net position, ending (b)	<u>\$ 255,781</u>	<u>\$ 42,581</u>	<u>\$ 665</u>
Net Pension Liability/(Asset), Ending = (a) - (b)	<u>\$ (575)</u>	<u>\$ (33)</u>	<u>\$ (193)</u>
Plan fiduciary net position as a percentage of the total pension liability	100.23%	100.08%	140.89%
Covered-employee payroll	\$ 1,312,036	\$ 240,321	\$ 4,231
Net pension liability as a percentage of covered employee payroll	-0.04%	-0.01%	-4.56%

See accompanying independent auditor's report.

REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
DECEMBER 31, 2023

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2020	\$ 306	\$ 349	\$ (43)	\$ 4,231	8.25%
2021	\$ 17,399	\$ 19,732	\$ (2,333)	\$ 240,321	8.21%
2022	\$ 112,441	\$ 112,618	\$ (177)	\$ 1,312,036	8.58%
2023	\$ 272,229	\$ 272,229	\$ -0-	\$ 2,950,371	9.23%

See accompanying independent auditor's report.

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REEVES COUNTY EMERGENCY SERVICES DISTRICT NO. 2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2023

NOTE 1. NET PENSION LIABILITY - TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Assumptions

The following methods and assumptions were used to determine contribution rates:

Valuation Date	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
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19.5 years (based on contribution rate calculated in 12/31/2022 valuation)
Asset Valuation Method	5-year, smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7%, average over career including inflation
Investment Rate of Return	7.50%, 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	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected 2022: New investment return and inflation assumptions were reflected
Changes in Plan Provisions reflected in Schedule*	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: No changes in plan provisions were reflected in the Schedule. 2018: No changes in plan provisions were reflected in the Schedule. 2019: No changes in plan provisions were reflected in the Schedule. 2020: No changes in plan provisions were reflected in the Schedule. 2021: No changes in plan provisions were reflected in the Schedule. 2022: No changes in plan provisions were reflected in the Schedule.

*Only changes that affect the benefit amount and that are effective 2015 and later are shown in Notes to Schedule

See accompanying independent auditor's report.

