ORANGE COUNTY EMERGENCY

SERVICES DISTRICT #2

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022

TABLE OF CONTENTS

MITCHELL T FONTENOTE CPA, INC.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Orange County Emergency Service District #2

Opinions

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Orange County Emergency Service District #2, as of and for the year December 31, 2022, and the related notes to the financial statements, which collectively comprise Orange County Emergency Service District #2'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 the aggregate remaining fund information of Orange County Emergency Service District #2, as of December 31, 2022, 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 Orange County Emergency Service District #2, 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.

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 Orange County Emergency Service District #2'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.

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

2428 NALL STREET, PORT NECHES, TX 77651 TELEPHONE: 409-722-6300

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 Orange County Emergency Service District #2'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 Orange County Emergency Service District #2'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 budgetary comparison information 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.

Mitchell T. Fontenote CPA, Inc.

Port Neches, Texas
May 22, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

In this section of the Annual Financial Report, we the Commissioners of Orange County Emergency Services District #2, discuss and analyze the District's financial performance for the fiscal year ended December 31, 2022. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was $3,733,014 at December 31, 2022.

- At the end of the current fiscal year, fund balance in the general fund was $2,919,408. Of this amount, $5,941 was nonspendable and the remaining $2,913,467 was unassigned.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net position and the Statement of Activities on pages 7 and 8. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements starting on page 9 report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements starting on page 13 provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

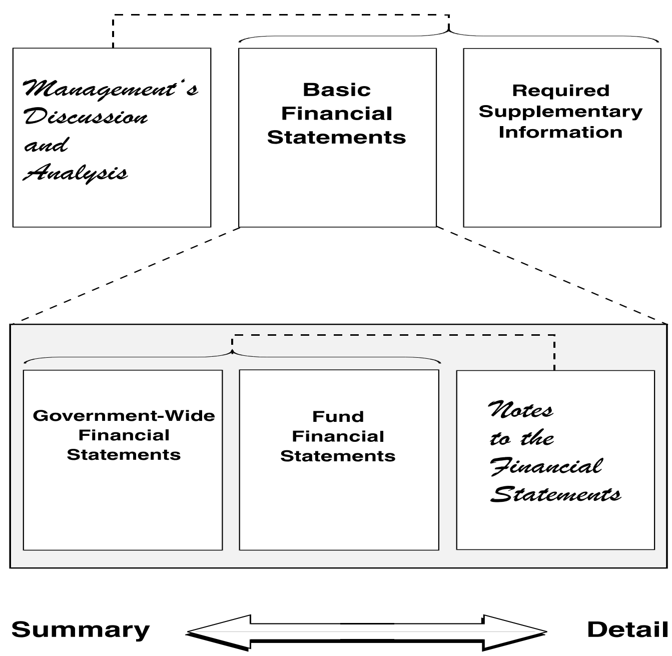

Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Reporting the District as a Whole

The Statement of Net position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 7. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by Interest Income on Investments, revenues provided by the taxpayers, and miscellaneous revenues. All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provides one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's property tax base and the condition of the District's facilities.

The government-wide financial statements of the District include governmental activities. Property taxes finance the bulk of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 9 and provide detailed information about the most significant funds-not the District as a whole. Governmental funds-Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net position and the Statement of Activities) and a governmental fund in reconciliation schedules following each of the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the District's governmental activities was $3,733,014.

Table I
NET POSITION

	2022	2021	Change
Current and other assets	$ 3,271,722	$ 2,713,004	$ 558,718
Capital assets	1,262,580	1,361,113	(98,533)
Total assets	4,534,302	4,074,117	460,185
Deferred outflows	227,076	165,748	93,397
Total Deferred outflows	227,076	165,748	93,397
Long-term liabilities	806,278	981,561	(175,283)
Other liabilities	89,128	97,466	(8,338)
Total liabilities	895,406	1,079,027	(183,621)
Deferred inflows	132,958	117,726	250,684
Total Deferred Inflows	132,958	117,726	250,684
Net Assets:			
Net Investment in Capital Assets	569,135	436,394	132,741
Unrestricted	3,163,879	2,606,718	557,161
Total net position	$ 3,733,014	$ 3,043,112	$ 689,902

Table II
CHANGES IN NET POSITION

	2022	2021	Change
Revenues:			
Property taxes	$ 1,766,889	$ 1,490,318	$ 276,571
Grant Income	18,405	-	18,405
Investment earnings	25,115	1,276	23,839
Other resources	91,403	148,707	(57,304)
Emergency Operations	10,038	-	10,038
Total revenue	1,911,850	1,640,301	271,549
Expenses:			
General government	1,194,742	1,136,300	58,442
Capital lease interest	27,206	37,066	(9,860)
Total expenses	1,221,948	1,173,366	48,582
Increase (decrease) in net assets	689,902	466,935	222,967
Net position, beginning	3,043,112	2,576,177	466,935
Net position, ending	$ 3,733,014	$ 3,043,112	$ 689,902

The District's total revenues were $1,911,850. The total cost of all governmental activities this year was $1,221,948. The amount that our taxpayers paid for these activities through property taxes was $1,766,889.

THE DISTRICT'S FUNDS

The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unreserved, undesignated fund balance may serve as a useful measure of the District’s net resources available for spending at the end of the fiscal year.

The General Fund is the primary operating fund of the District. As of December 31, 2022 the fund balance of $2,919,408 was distributed as follows: nonspendable amount of $5,941 and unassigned amount of $2,913,467.

For fiscal year ended December 31, 2022 the actual revenues were $406,304 over budgeted amounts. This variance is primarily caused by the different financial cycles used by the District and its supporting taxing authority and income from emergency operations. The District prepares its budget on a calendar year basis from January to December each year. The taxing authority computes the supporting tax rates and budget allocations in September/October of each year. The taxing authority’s allocation for the District has historically increased from tax year to tax year. This increase is received by the District in the fall every year prior to its calendar year end. The increase in revenue received in the fall has not been budgeted because of un-certainly in the rates and values that may be used by the taxing authority.

Actual expenditures were $47,889 under budgeted amounts. Historically, these costs have been difficult to project for budget purposes due to the uncertainty of future activity and inflationary increases on such expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2022, the District had $7,083,255 invested in a broad range of capital assets, including land, buildings and improvements, and machinery and equipment. This amount is a decrease compared to last year.

Depreciation for fiscal year ended December 31, 2022 was $198,466.

Debt

At year-end, the District had $693,445 (principal only) in notes payable.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's appointed officials considered many factors when setting the fiscal-year 2023 budget and tax rate. It was decided at the August 2022 board meeting to adopt the tax rate at $.10 per $100 in valuation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Christopher Landry, Treasurer at the Orange County Emergency Services District #2, Bridge City, TX 77611.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENT OF NET POSITION
DECEMBER 31, 2022

		Governmental Activities
ASSETS AND DEFERRED OUTFLOWS		
Cash and Cash Equivalents	$	1,578,025
Receivables (net of allowance for uncollectibles)		1,658,882
Prepaid Items		5,941
Net Pension Asset - TCDRS		28,874
Capital Assets:		
Land		111,000
Buildings, net		720,263
Machinery and Equipment, net		431,317
Total Assets		4,534,302
Deferred Outflows of Resources		
Deferred outflows related to TCDRS		181,170
Deferred outflows related to TESRS		45,906
Total Deferred Outflows of Resources		227,076
LIABILITIES AND DEFERRED INFLOWS		
Accounts Payable		21,783
Accrued Interest Payable		20,629
Other Current Liabilities		46,716
Noncurrent Liabilities		
Due Within One Year		150,906
Due in More Than One Year		542,539
Net Pension Liability - TESRS		112,833
Total Liabilities		895,406
Deferred Inflows of Resources		
Deferred inflows related to TCDRS		132,391
Deferred inflows related to TESRS		567
Total Deferred Outflows of Resources		132,958
NET POSITION		
Net Investment in Capital Assets		569,135
Unrestricted Net Position		3,163,879
Total Net Position	$	3,733,014

The accompanying notes are an integral part of this statement.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government				
GOVERNMENTAL ACTIVITIES:				
General Government	$ 1,194,742	$ -	$ -	$ (1,194,742)
Interest Expense	27,206	-	-	(27,206)
TOTAL PRIMARY GOVERNMENT	$ 1,221,948	$ -	$ -	$ (1,221,948)
General Revenues				
Taxes:				
Property Taxes, Levied for General Purposes				1,766,889
Grant Income				18,405
Emergency Operations				10,038
Miscellaneous Revenue				91,403
Investment Earnings				25,115
Total General Revenues and Special Items				1,911,850
Change in Net Position				689,902
Net Position, Beginning				3,043,112
Net Position, Ending				$ 3,733,014

The accompanying notes are an integral part of this statement.

BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	General Fund
ASSETS	
Cash and Cash Equivalents	$ 1,578,025
Taxes Receivable	1,097,565
Intergovernmental Receivables	561,317
Prepaid Items	5,941
Total Assets	$ 3,242,848
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$ 21,783
Accrued Expenses	13,487
Wages and Salaries Payable	26,702
Interest Payable	20,629
Other Current Liabilities	6,527
Total Liabilities	89,128
Deferred Inflows	
Unavailable Property Taxes	234,312
Total Deferred Inflows	234,312
Fund Balances:	
Nonspendable	5,941
Unassigned	2,913,467
Total Fund Balances	2,919,408
Total Liabilities and Fund Balances	$ 3,242,848

The accompanying notes are an integral part of this statement.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2022

Total Fund Balances - Governmental Funds			$ 2,919,408
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including capital leases payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase			
	Capital Assets	6,983,322	
	Accumulated Depreciation	(5,622,209)	
	Long-term Debt	(839,359)	
	Capital Leases	(85,360)	436,394
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase net position.			
	Capital outlays	99,933	
	Principal Payments	145,914	
	Lease Payments	85,360	331,207
The depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.			(198,466)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.			234,312
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability, and accompanying deferred inflows and outflows of resources, required by GASB 68.			
	Deferred outflows - TCDRS	181,170	
	Deferred outflows - TESRS	45,906	
	Deferred inflows - TCDRS	(132,391)	
	Deferred inflows - TESRS	(567)	
	Net Pension Asset - TCDRS	28,874	
	Net Pension Liability - TESRS	(112,833)	10,159
Net Position of Governmental Activities			$ 3,733,014

The accompanying notes are an integral part of this statement.

ORANGE COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

		General Fund
REVENUES		
Taxes		
Property Taxes	$	1,742,693
Investment Earnings		25,115
Emergency Operations		10,038
Grant Income		18,405
Other Revenue		91,403
Total Revenues		1,887,654
EXPENDITURES		
Current		
General Government		1,015,256
Debt Service		
Debt Principal		231,274
Debt Interest		27,206
Capital Outlay		99,933
Total Expenditures		1,373,669
Net Change in Fund Balances		513,985
Fund Balance, Beginning		2,405,423
Fund Balance, Ending	$	2,919,408

The accompanying notes are an integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Total Net Change in Fund Balances - Governmental Funds		$	513,985
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements is to increase net position.			
Capital outlays	99,933		
Principal Payments	145,914		
Lease Payments	85,360		331,207
Depreciation is not recognized as an expense in governemntal funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.			(198,466)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.			24,197
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. This caused a net decrease in the			
Deferred outflows - TCDRS	15,422		
Deferred outflows - TESRS	45,906		
Deferred inflows - TCDRS	(46,184)		
Deferred inflows - TESRS	30,952		
Net Pension Asset - TCDRS	28,874		
Net Pension Liability - TCDRS	24,592		
Net Pension Liability - TESRS	(80,583)		18,979
Change in Net Position of Governmental Activities		$	689,902

The accompanying notes are an integral part of this statement.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Orange County Emergency Services District #2 ("District") was established on March 12, 1994, as a result of a special election, held February 1, 1994, converting the Orange County Rural Fire Prevention District #1 to the District. The District is a political subdivision and taxing entity of the State pursuant to Chapter 775, Health and Safety Code ("Code"). The District assumed all assets and liabilities of the Rural Fire Prevention District #1.

A. REPORTING ENTITY

The Board of Commissioners (the "Board) are appointed by the County Commissioners and they have the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity."

There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net position and the Statement of Activities are government-wide financial statements. They report information on all of the Orange County Emergency Services District #2 nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. The "grants and contributions" columns include amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use 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 the 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION CONT'D

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

1. Non-Spendable – 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 has $5,941 classified as Non-Spendable.

2. Restricted – amounts that can be spent only for specific purposes because of constitutional provision or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District has $0 classified as Restricted.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

D. FUND ACCOUNTING CONT'D

3. Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District has $0 classified as Committed.

4. 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 $0 classified as Assigned.

5. Unassigned – all other spendable amounts. The District has $2,913,467 classified as Unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors or management has provided otherwise in its commitment or assignment actions.

In the fiscal year ending December 31, 2022, the Board of Directors does not have a minimum fund balance policy for the General Fund.

E. OTHER ACCOUNTING POLICIES

1. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

2. Capital assets, which include land, buildings, 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 District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

   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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Buildings	39.5
Other Improvements	17
Machinery & Equipment	5-7

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

E. OTHER ACCOUNTING POLICIES CONT'D

3. When the District incurs an expense for which it may use either restricted or unrestricted net assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

4. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the periods presented. The District regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The District adopts an annual budget for the General Fund. The budget is prepared in accordance with the basis of accounting utilized by that fund. The budget for the General Fund presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual is an amended budget, approved by the Board of Commissioners at their December regular meeting, as requested by the Board Treasurer, to adjust line items to agree with the District's actual general ledger balances. All annual appropriations lapse at fiscal year-end.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

At December 31, 2022 the carrying amount of the District's deposits (cash and interest-bearing savings accounts included in temporary investments) was $194,074. The District's cash deposits at December 31, 2022 and during the year ended December 31, 2022 were only covered by FDIC insurance up to $250,000 per institution, the remaining uncovered balance is covered by pledged securities.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things it requires the District to adopt, implement, and publicize an investment policy. The policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rate of returns, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statues authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires that the District to have independent auditors to perform the test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

A. DEPOSITS AND INVESTMENTS CONT'D

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Insured or registered, or securities held by the District or by its agent in the District's name.

Category 2 - Uninsured and unregistered, held by the counter-party's trust department or agent in the District's name.

Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or agent, but not in the District's name.

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

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the District's fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

D. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, not being depreciated				
Land	$ 111,000	$ -	$ -	$ 111,000
Total Capital Assets, not being depreciated	111,000	-	-	111,000
Capital Assets, being depreciated				
Buildings and Improvements	1,144,055	-	-	1,144,055
Machinery and Equipment	5,728,267	99,933	-	5,828,200
Total Capital Assets, being depreciated	6,872,322	99,933	-	6,972,255
Less Accumulated Depreciation				
Buildings and Improvements	(394,627)	(29,165)	-	(423,792)
Machinery and Equipment	(5,227,582)	(169,301)	-	(5,396,883)
Total Accumulated Depreciation	(5,622,209)	(198,466)	-	(5,820,675)
Capital Assets, Net	$ 1,361,113	$ (98,533)	$ -	$ 1,262,580

E. COMMITMENTS UNDER OPERATING LEASES

The District had no operating leases as of December 31, 2022.

F. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

The District's vacation policy is that each full-time employee with over one year's service is given four, 12 hours shifts per calendar year for vacation. Vacation time used is paid at the employee's standard rate of pay. Each full-time employee may carry over four, 12 hours shifts of vacation per year (no more than eight shifts total per year may be taken). Any vacation time not used and that cannot be carried over will be lost.

The District's sick pay policy is that each full-time employee will accrue 12 hours sick time per year. There is no limit to the amount of sick time that can be carried over from year to year.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

G. PENSION PLAN (Volunteers)

Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine-member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2022, there were 239 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2022, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,991
Terminated Members Entitled to Benefits but Not Yet Receiving Them	1,813
Active Participants	3,379

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is $36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

G. PENSION PLAN (Volunteers) Cont'd

According to the state law governing the System, the state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2022, the Part Two contributions are not required for an adequate contribution arrangement.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to 15 years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2022, total contributions of $4,049,093 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated $1,262,763 for the fiscal year ending August 31, 2022.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in Section I(B)(1).

The most recently completed biennial actuarial valuation as of August 31, 2022 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately $675,000 each year to pay for part of the System's administrative expenses.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

G. PENSION PLAN (Volunteers) Cont'd

Actuarial Assumptions

The total pension liability in the August 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	N/A
Investment rate of return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.61%) and by adding expected inflation (3.0%). In addition, the final 7.5% assumption was selected by rounding down. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	20%	5.83%
Small/mid cap domestic	10%	5.94%
Developed international	15%	6.17%
Emerging markets	5%	7.36%
Global infrastructure	5%	6.61%
Real Estate	10%	4.48%
Multi asset income	5%	3.86%
Fixed income	30%	1.95%
Cash	0%	0.00%
Total	100%	
Weighted average		4.61%

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

G. PENSION PLAN (Volunteers) Cont'd

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. No projection of cash flows was used to determine the discount rate because the August 31, 2022 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the level dollar amortization method. Because of the 30-year amortization period with the amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following presents the net pension liability of the System, calculated using the discount rate of 7.5%, in comparison to what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
Total pension liability	177,004	112,833	60,868
Net pension liability/(asset)	$ 177,004	$ 112,833	$ 60,868

Changes in Net Pension Liability

Changes in Net Pension Liability/(Asset)	Total Pension Liability	Increase (Decrease) Fiduciary Net Position	Net Pension Liability/ (Asset)
Balances as of September 1, 2021	$ 428,130	$ 398,666	$ 29,464
Changes for the year			-
Service cost	4,280	-	4,280
Interest	31,611	-	31,611
Changes of benefit terms	6,681	-	6,681
Differences between expected and actual	6,852	-	6,852
Assumption changes	(905)	-	(905)
Benefit payments	(21,865)	(21,865)	-
Administrative expenses	-	(664)	664
Contributions for participating departments	-	11,135	(11,135)
Contributions by the state	-	3,473	(3,473)
Net investment income	-	(48,794)	48,794
Other	-	-	-
Balances as of August 31, 2022	$ 454,783	$ 341,950	$ 112,833

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

G. PENSION PLAN (Volunteers) Cont'd

Pension Expense

Pension Expense/(Income)	September 1, 2021 to August 31, 2022
Service cost	$ 4,280
Interest on total pension liability	31,611
Projected earnings on pension plan investments	(29,486)
Amortization of differences between projected and actual earnings on plan investments	9,079
Amortization of changes of assumptions	(378)
Amortization of differences between expected and actual experience	1,391
Pension plan adminsitrative expense	664
Changes in benefit Provisions	6,681
Pension expense/(income)	$ 23,841

Schedule of Deferred Inflows and Outflows

As of August 31, 2022, the deferred inflows and outflows of resources related to pensions are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expencted and actual experience	$ -	$ 4,295
Changes of assumptions	567	-
Net difference between projected and actual earnings	-	41,611
Contributions made subsequent to measurement date	-	-

Amounts currently reported as deferred outflows or deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended August 31,	Net Deferred Outflows Minus Deferred Inflows
2023	$ 13,081
2024	8,121
2025	8,479
2026	15,657
	$ 45,339

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

H. PENSION PLAN (Employees)

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined contribution 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 553 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Current Active Members	9
Current Inactive Members	0
Current Retirees and Beneficiaries	0
Total	9

The plan revisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with more than 8 years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more.

Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's 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 using annuity purchase rates 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. This rate was 15.34% for the calendar year 2017. The deposit rate payable by the employee members is the rate of 7% 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.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

Net Pension Liability

The net pension liability was determined using the following actuarial assumptions:

Valuation Timing	Actuarially deteremined 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 (level percentage of pay)
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	19.1 years (based on contributions rate calculated in 12/31/2021 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 administrative and investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving beneift 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
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2015: Employer contributions reflect that the member contribution rate was increased to 7% and the current service matching rate was increased to 200% for future benefits. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 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

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

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

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 2022 information for a 10-year time horizon.

Note that the valuation assumption for the long-term expected return is re-assessed in detail at a minimum of every four years and is set 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	Benchmark	Target Allocation[1]	Geometric Real Rate of Return (Expected minus Inflation) [2]
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	3.80%
Global Equities	MSCI World (net) Index	2.50%	4.10%
International Equities - Developed	MSCI World Ex USA (net)	5.00%	3.80%
International Equities - Emerging	MSCI Emerging Markets (net) Index	6.00%	4.30%
Investment-Grade Bonds	Bloomberg Barclays U.S. Agregate Bond Index	3.00%	-0.85%
Strategic Credit	FTSE High-Yield Cash-Pay Caped Index	9.00%	1.77%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.25%
Distressed Debt	Cambridge Associates Distressed Securities Index [3]	4.00%	4.50%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.10%
Master Limited Parternerships	Alerian MLP Index	2.00%	3.85%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index [4]	6.00%	5.10%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index [5]	25.00%	6.80%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	1.55%
Cash Equivalents	90 - Day US Treasury	2.00%	-1.05%

[1] *Target asset allocation adopsted at the March 2022 TCDRS Board meeting*

[2] *Geometric real rates of return equal the expected return for the asset class minus the assumed inflation rate of 2.6%, per Cliffwater's 2022 capital market assumptions.*

[3] *Includes vintage years 2005-present of Quarter Pooled Horizon IRRs*

[4] *Includes vintage years 2007-present of Quarter Pooled Horizon IRRs*

[5] *Includes vintage years 2006-present of Quarter Pooled Horizon IRRs*

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

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.

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.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

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 7.60%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Sensitivity Analysis

The following represents the net pension liability of the employer, calculated using the discount rate of 7.60%, as well as what the Orange County Emergency Service District #2 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% Decrease 6.60%	Current Rate 7.60%	1% Increase 8.60%
Total pension liability	$ 724,900	$ 607,360	$ 511,814
Fiduciary net position	636,234	636,234	636,234
Net pension liability/(asset)	$ 88,666	$ (28,874)	$ (124,420)

Changes in Net Pension Liability

Changes in Net Pension Liability/(Asset)	Total Pension Liability	Increase (Decrease) Fiduciary Net Position	Net Pension Liability/ (Asset)
Balances as of December 31, 2020	$ 490,336	$ 465,743	$ 24,593
Changes for the year			
Service cost	56,655	-	56,655
Interest on total pension liability(1)	41,571	-	41,571
Effect of plan changes (2)	-	-	-
Effect of economic/demographic (gains) or losses	13,077	-	13,077
Effect of assumption changes or inputs	5,721	-	5,721
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	(344)	344
Member contributions	-	27,039	(27,039)
New investment income	-	109,178	(109,178)
Employer contributions	-	32,794	(32,794)
Other(3)	-	1,824	(1,824)
Balances as of December 31, 2021	$ 607,360	$ 636,234	$ (28,874)

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

(2) *No plan changes valued.*

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

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

Pension Expense

Pension Expense/(Income)	January 1, 2021 to December 31, 2021
Service cost	$ 56,655
Interest on total pension liability [1]	41,571
Effect on plan changes	-
Administrative expenses	344
Member contributions	(27,039)
Expected investment return net of investment expenses	(37,684)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	839
Recognition of assumption changes or inputs	3,741
Recognition of investment gains or losses	(16,250)
Other[2]	(1,822)
Pension expense/(income)	$ 20,355

[1] Reflects the change in the liability due to the time value of money. TCDRS does not changes fees or interest.

[2] Relates to allocation of system-wide items.

Schedule of Deferred Inflows and Outflows

As of December 31, 2022, the deferred inflows and outflows of resources related to pensions are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expencted and actual experience	$ 68,364	$ 70,364
Changes of assumptions	162	40,785
Net difference between projected and actual earnings	63,865	-
Contributions made subsequent to measurement date	N/A	70,021

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

	Pension Expense	Balance of Deferred Outflows (Inflows)
2022	$ (10,122)	$ (11,120)
2023	(14,812)	3,692
2024	(10,893)	14,585
2025	(9,718)	24,303
2026	4,580	19,723
Thereafter[1]	19,723	-

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

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

I. LONG-TERM DEBT

Long-term activity for the year ended December 31, 2022, was as follows:

Governmental Activities	Interest Rates	Original Amount	Balance 1/1/2022	Additions	Reductions	Balance 12/31/2022	Due Within One Year
Note Payable Buildling	3.61%	470,000	105,150	-	(51,764)	53,386	53,386
Note Payable Fire Truck	3.58%	997,580	734,209	-	(94,150)	640,059	97,520
Capital Leases							
2012 Tanker & Pumper	3.22%	698,250	85,360	-	(85,360)	-	-
Total Governmental Long-Term			$ 924,719	$ -	$ (231,274)	$ 693,445	$ 150,906

Total Debt

	Principal	Interest	Total
2023	150,906	24,587	175,493
2024	101,012	19,423	120,435
2025	104,628	15,807	120,435
2026	108,374	12,061	120,435
2027	112,253	8,181	120,434
2028	116,272	4,163	120,435
Total	$ 693,445	$ 84,222	$ 777,667

J. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Total
Property Taxes	$ 1,742,693	$ 1,742,693
Investment Earnings	25,115	25,115
Emergency Operations	10,038	10,038
Grant Income	18,405	18,405
Other Revenue	91,403	91,403
Total Revenues	$ 1,887,654	$ 1,887,654

Deferred revenue at year end consisted of the following:

	General Fund	Total
Net Tax Revenue	234,312	234,312
Total Unearned Revenue	$ 234,312	$ 234,312

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS CONT'D

K. LITIGATION

None.

L. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 22, 2023, the date at which the financials statements were available. No events were noted that would require disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY EMERGENCY SERVICE DISTRICT #2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or
	Original	Final	(GAAP)	(Negative)
REVENUES				
Taxes				
Property Taxes	$ 1,481,350	$ 1,481,350	$ 1,742,693	$ 261,343
Investment Earnings	-	-	25,115	25,115
Emergency Operations	-	-	10,038	10,038
Grant Revenue	-	-	18,405	18,405
Other Revenue	-	-	91,403	91,403
Total Revenues	1,481,350	1,481,350	1,887,654	406,304
EXPENDITURES				
Current				
General Government	1,068,143	1,068,143	1,015,256	52,887
Debt Service				
Debt Principal	233,701	233,701	231,274	2,427
Debt Interest	29,714	29,714	27,206	2,508
Capital Outlay	90,000	90,000	99,933	(9,933)
Total Expenditures	1,421,558	1,421,558	1,373,669	47,889
Net Change in Fund Balances	59,792	59,792	513,985	454,193
Fund Balance, Beginning	2,405,423	2,405,423	2,405,423	-
Fund Balance, Ending	$ 2,465,215	$ 2,465,215	$ 2,919,408	$ 454,193

ORANGE COUNTY EMERGENCY SERVICE DISTRICT #2

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS - TCDRS FOR THE YEAR ENDED DECEMBER 31, 2022

	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability								
Service cost	$ 56,655	$ 46,657	$ 43,747	$ 49,108	$ 42,996	$ 41,906	$ 33,671	$ 12,548
Interest on total pension liability	41,571	33,192	26,803	24,229	18,597	13,116	15,979	4,222
Effect of plan changes	-	-	-	-	-	-	(7,736)	41,625
Effect of assumption changes or inputs	5,721	40,808	-	-	(261)	-	2,025	-
Effect of economic/demographic (gains)/losses	13,077	6,559	5,410	(28,450)	9,523	(9,801)	(86,130)	99,886
Benefit payments/refunds or contributions	-	-	-	(15,179)	-	-	-	(545)
Net change in total pension liability	117,024	127,216	75,960	29,708	70,855	45,221	(42,191)	157,736
Total pension liability, beginning	490,336	363,120	287,160	257,452	186,597	141,376	183,566	25,830
Total pension liability, ending (a)	$ 607,360	$ 490,336	$ 363,120	$ 287,160	$ 257,452	$ 186,597	$ 141,375	$ 183,566
Fiduciary Net Position								
Employer contributions	32,794	36,220	34,613	36,269	35,731	31,618	30,587	-
Member contributions	27,039	23,563	22,519	23,595	23,245	20,569	19,899	10,890
Investment income net of investment expenses	109,178	37,985	43,346	(3,639)	21,526	6,070	(502)	759
Benefit payments/refunds of contributions	-	-	-	(15,179)	-	-	-	8,123
Administrative expenses	(344)	(341)	(279)	(212)	(148)	(66)	(41)	(16)
Other	1,823	1,804	2,007	1,354	792	3,264	(5)	(1)
Net change in fiduciary net position	170,490	99,231	102,206	42,188	81,146	61,455	49,938	19,755
Fiduciary net position, beginning	465,744	366,513	264,307	222,119	140,973	79,518	29,580	9,825
Fiduciary net position, ending (b)	$ 636,234	$ 465,744	$ 366,513	$ 264,307	$ 222,119	$ 140,973	$ 79,518	$ 29,580
Net pension liability/(asset), ending = (a) - (b)	$ (28,874)	$ 24,592	$ (3,393)	$ 22,853	$ 35,333	$ 45,624	$ 61,857	$ 153,986
Fiduciary net position - % of total pension liability	104.75%	94.98%	100.93%	92.04%	86.28%	75.55%	56.25%	16.11%
Pensionable covered payroll	386,270	336,614	321,696	337,069	332,077	293,849	284,267	272,262
Net pension liability as a % of covered payroll	-7.48%	7.31%	-1.05%	6.78%	10.64%	15.53%	21.76%	56.56%

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
FOR THE YEAR ENDEDDECEMBER 31, 2022

Year Ending December 31,	Actuarially Determined Contribution[1]	Actual Employer Contribution[1]	Contribution Deficiency (Excess)	Pensionable Covered Payroll[2]	Actual Contribution as a % of Covered Payroll
2012	**	**	**	**	**
2013	4,304	4,304	-	135,349	3.2%
2014	8,658	8,668	(10)	272,262	3.2%
2015	30,587	30,587	-	284,267	10.8%
2016	30,031	31,618	(1,587)	293,849	10.8%
2017	33,075	35,731	(2,657)	332,077	10.8%
2018	33,572	36,269	(2,697)	337,069	10.8%
2019	31,623	34,613	(2,990)	321,696	10.8%
2020	29,925	36,220	(6,295)	336,614	10.8%
2021	32,794	32,794	-	386,270	8.5%

[1] TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis. If additional assistance is needed, please contact TCDRS.

[2] Payroll is calculated based on contributions reported to TCDRS.

ORANGE COUNTY EMERGENCY SERVICE DISTRICT #2

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS - TESRS
FOR THE YEAR ENDED DECEMBER 31, 2022

	8/31/2022	8/31/2021	8/31/2020	8/31/2019	8/31/2018	8/31/2017	8/31/2016
Total Pension Liability							
Service cost	$ 4,280	$ 4,685	$ 6,475	$ 6,736	$ 5,784	$ 6,135	$ 6,523
Interest	31,611	33,474	38,167	38,095	35,952	36,452	34,273
Changes of benefit terms	6,681	-	10,372	-	10,256	-	2,780
Differences between expected and actual	6,852	-	(6,819)	-	(328)	-	249
Assumption changes	(905)	-	(235)	-	-	-	3,427
Benefit payments	(21,865)	(22,377)	(23,879)	(23,219)	(21,198)	(18,612)	(18,102)
Change in allocation percentage	(93,900)	(69,204)	(20,090)	(2,750)	(29,169)	-	-
Net change in total pension liability	(67,247)	(53,422)	3,991	18,862	1,297	23,975	29,149
Total pension liability, beginning	522,030	522,030	518,039	499,177	497,880	473,905	444,756
Total pension liability, ending (a)	$ 454,783	$468,608	$522,030	$518,039	$499,177	$497,880	$473,905
Fiduciary Net Position							
Contributions for participating departments	11,135	11,479	4,612	4,798	4,825	6,098	13,335
Contributions by the state	3,473	4,001	13,031	12,565	14,879	19,297	6,098
Net investment income	(48,794)	67,121	42,306	4,117	41,069	37,639	19,083
Benefit payments	(21,865)	(22,377)	(23,879)	(23,219)	(21,198)	(18,612)	(18,102)
Administrative expenses	(664)	(808)	(1,112)	(819)	(574)	(710)	(642)
Change in allocation percentage	(35,882)	(57,606)	(16,121)	(2,317)	(23,888)	-	-
Net change in fiduciary net position	(92,598)	1,810	18,837	(4,875)	15,113	43,712	19,772
Fiduciary net position, beginning	434,548	434,548	415,711	420,586	405,473	361,761	341,990
Fiduciary net position, ending (b)	$ 341,950	$436,358	$434,548	$415,711	$420,586	$405,473	$361,762
Net pension liability/(asset), ending = (a) - (b)	$ 112,833	$ 32,250	$ 87,482	$102,328	$ 78,591	$ 92,407	$112,143
Fiduciary net position as a % of total pension liability	75.19%	93.12%	83.24%	80.25%	84.26%	81.44%	76.34%