

**LIBERTY COUNTY
EMERGENCY SERVICES DISTRICT NO. 2
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

**LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
<u>Basic Financial Statements:</u>	
Statement of Net Position and Governmental Fund Balance Sheet – General Fund	9
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance – General Fund	11
Notes to Financial Statements	13
<u>Required Supplementary Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	21

FINANCIAL SECTION

SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
Liberty, Texas 77575
(936) 336-7205

Independent Auditor's Report

Members of the Board of Commissioners
Daisetta, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and the general fund of Liberty County Emergency Services District No. 2 (the District) as of and for the year ended September 30, 2025, 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 the general fund of the District, as of September 30, 2025, 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.

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.

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 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.

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.

Liberty, Texas

May 31, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Liberty County Emergency Services District No. 2's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended September 30, 2025. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

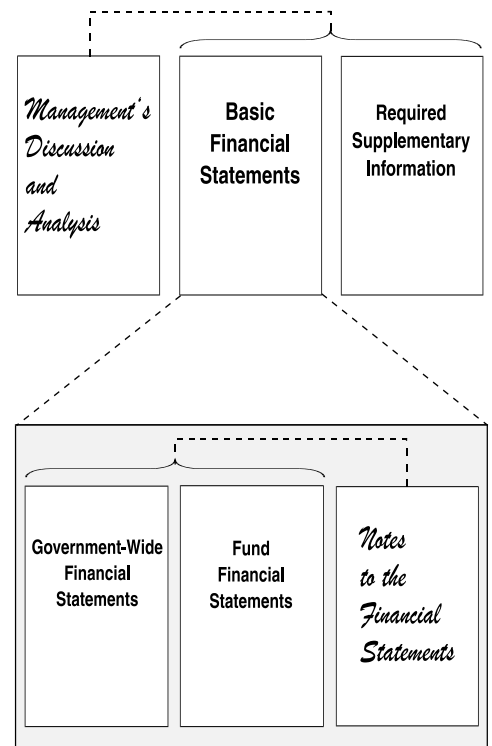
- The District's total combined net position was \$1.1 million at September 30, 2025, compared to \$1.0 million at September 30, 2024. The increase in net position is due an increase in cash coupled with the decrease in long-term liabilities.
- During the year, the District's total expenses of \$0.6 million were more than offset by \$0.7 million in revenues. Revenues include property taxes (\$0.5 million), sales tax (\$0.2 million) and income from other sources. Expenses consist primarily of fire protection services (52%). Additionally, depreciation on assets related to fire protection and interest on debt associated with those assets accounted for 27% and 10%, respectively, of total expenses . This compared to 2024 levels of \$0.5 million in total expenses and \$0.6 million in total revenues.
- The general fund reported a fund balance of \$832.2 thousand at September 30, 2025, which is an increase of \$0.2 million from 2024.

OVERVIEW OF THE FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements. GASB Statement No. 34 provides that for special-purpose governments engaged in a single government program, the fund financial statements and the government-wide statements may be combined. The District has elected to present financial statements under this combined method. Additionally, the District has implemented GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement amends the net asset reporting requirements of GASB Statement No. 34 by incorporating deferred inflows and outflows of resources into the required components of the residual measure and renaming that measure as net position. The basic financial statements of the District include (a) Management's Discussion and Analysis, (b) Government-wide Financial Statements combined with Fund Financial Statements, (c) Notes to Financial Statements; and (d) Required Supplementary Information. The basis of presentation and the basis of accounting for the government-wide and fund financial statements utilized in the combined statements is discussed below:

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the District's overall financial status.
- The *fund financial statements* focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

Figure A-1, Required Components of the District's Annual Financial Report



Summary ↔ Detail

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the District’s Government-wide and Fund Financial Statements

Figure A-2 summarizes the major features of a typical government under GASB Statement No. 34. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets, liabilities, and deferred items. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

<i>Types of Statements</i>	Government-wide	Governmental Funds
<i>Scope</i>	Entire District’s government (except fiduciary funds) and the District’s component units	The activities of the District that are not proprietary or fiduciary
<i>Required financial statements</i>	• Statement of net position	• Balance sheet
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

The two government-wide statements report the District’s net position and how they have changed. Net position—the difference between the District’s assets, liabilities, and deferred items is one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional factors.

The government-wide financial statements of the District include the *Governmental activities*. The District’s basic services (fire protection services) are included here. Property taxes and sales taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District’s most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Commissioners establishes other funds to control and manage money for particular purposes.

The District has the following kinds of funds:

- *Governmental Funds*—The District’s basic services are included in governmental funds, which focus on (1) *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at yearend that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was \$1.1 million at September 30, 2025, compared to \$1.0 million at September 30, 2024. (See Table A-1).

Table A-1
District's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2025-2024
	2025	2024	2025	2024	2025	2024	
Assets:							
Cash and Cash Equivalents	\$805.6	\$604.0	(1)	(1)	\$805.6	\$604.0	33%
Taxes Receivable, net	111.4	111.8	(1)	(1)	111.4	131.9	0%
Interest Receivable	0.1	-	(1)	(1)	0.1	-	100%
Due From Other Governments	30.0	28.9	(1)	(1)	30.0	28.9	3%
Due from HDVFD	-	19.0	(1)	(1)	-	19.0	-100%
Prepaid Expenses	2.8	-	(1)	(1)	2.8	-	100%
Capital Assets, net	1,376.8	1,581.4	(1)	(1)	1,376.8	2,156.7	-13%
Total Assets	2,326.7	2,345.1	(1)	(1)	2,326.7	2,345.1	-1%
Deferred Outflows of Resources	-	-	(1)	(1)	-	-	-
Liabilities:							
Accounts Payable	6.4	12.6	(1)	(1)	6.4	12.6	-49%
Accrued Interest Payable	44.8	50.6	(1)	(1)	44.8	50.6	-12%
Notes Payable Due in One Year	129.6	123.8	(1)	(1)	129.6	123.8	5%
Notes Payable Due in More than One Year	1,008.1	1,134.2	(1)	(1)	1,008.1	1,134.2	-11%
Total Liabilities	1,188.9	1,321.2	(1)	(1)	1,188.9	1,321.2	-10%
Deferred Inflows of Resources	-	-	(1)	(1)	-	-	-
Net Position:							
Net Investment in Capital Assets	239.1	323.5	(1)	(1)	239.1	323.5	-26%
Unrestricted (Deficit)	898.7	700.4	(1)	(1)	898.7	700.4	28%
Total Net Position	\$1,137.8	\$1,023.9	(1)	(1)	\$1,137.8	\$1,023.9	11%

(1) The District does not have any Business-type activities.

As of September 30, 2025, the District had invested \$239.1 thousand in capital assets. This amount represents \$1.4 million in capital assets, net of depreciation, less the outstanding debt associated with acquiring those assets. The remaining unrestricted net position was \$898.7 thousand.

As of September 30, 2024, the District had invested \$323.5 thousand in capital assets. The remaining unrestricted net position was \$700.4 thousand.

Changes in Net Position. The District's total revenues were \$0.7 million for 2025. A significant portion, 66.2 percent of the District's revenue came from property taxes. (See Figure A-3.) The other sources of revenue are sales tax (23.7 percent), intergovernmental revenue (4.5 percent) and interest and other income (5.6 percent). The total cost of the District's program services for the year ended September 30, 2025, was \$0.6 million; 51.9 percent of these costs are for fire protection services, 27.3 percent are for depreciation and 9.8 percent are for debt service interest related to assets for those services. Other administration expenses account for 11 percent of total costs. This compares to \$0.6 million of total revenues for 2024, with expenses of \$0.5 million. Revenues in 2024 were \$0.1 million lower than 2025 due to lower sales tax revenue. Expenses in 2024 were consistent with 2025 levels.

FIGURE A-3 SOURCE OF DISTRICT REVENUES

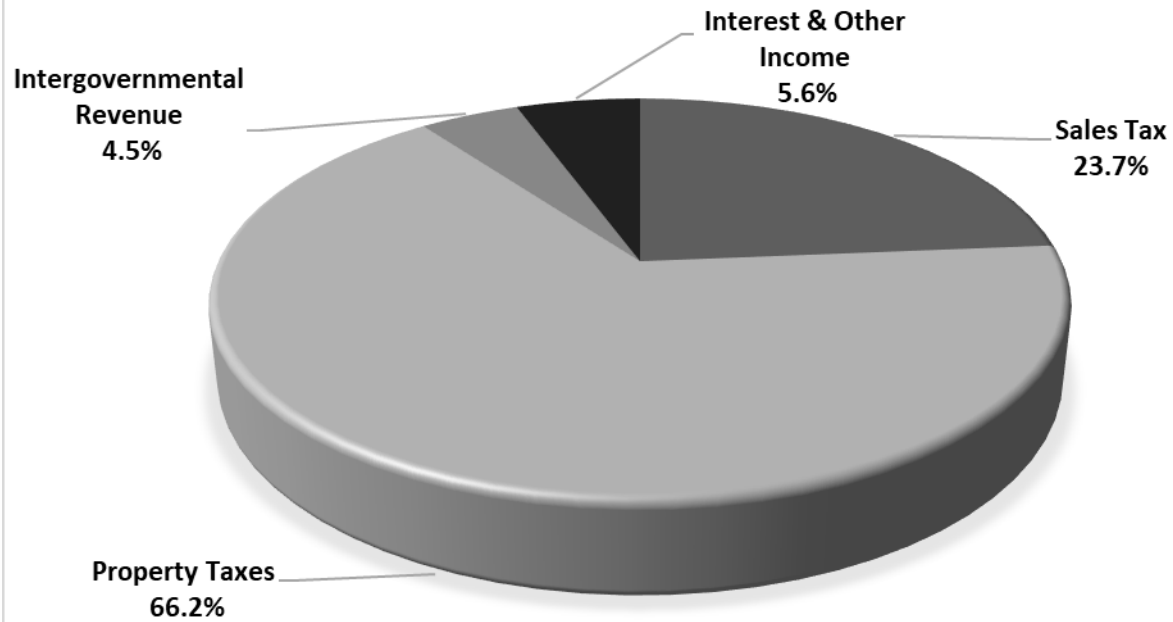


Table A-2
Changes in the District's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total % Change 2025-2024
	2025	2024	2025	2024	2025	2024	
Program Revenues:							
General Revenues:							
Property Taxes, including P & I	\$473.5	\$461.1	(1)	(1)	\$473.5	\$461.1	3%
Sales Tax	169.3	73.0	(1)	(1)	169.3	73.0	132%
Intergovernmental Revenues	32.1	25.0	(1)	(1)	32.1	25.0	28%
Donations and Other Income	14.2	33.3	(1)	(1)	14.2	33.3	-57%
Gain on Disposition of Assets	13.7	-	(1)	(1)	13.7	-	100%
Interest Income	12.7	15.2	(1)	(1)	12.7	15.2	41%
Total Revenues	715.5	607.6	(1)	(1)	715.5	607.6	20%
Expenses:							
Fire Protection Services:							
Contractual Fire Protection Svcs	312.5	230.4	(1)	(1)	312.5	230.4	36%
Depreciation	164.0	168.4	(1)	(1)	164.0	168.4	-3%
Debt Service - Interest Expense	59.1	61.9	(1)	(1)	59.1	61.9	-5%
General Administration	66.0	85.5	(1)	(1)	66.0	85.5	-23%
Total Expenses	601.6	546.2	(1)	(1)	601.6	546.2	10%
Change in Net Position	113.9	61.4	(1)	(1)	113.9	61.4	85%
Net Position – Beginning of Year	1,023.9	962.5	(1)	(1)	1,023.9	962.5	6%
Net Position – End of Year	\$1,137.8	\$1,023.9	(1)	(1)	\$1,137.8	\$1,023.9	11%

(1) The District does not have any Business-type activities.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the year ended September 30, 2025, the District's total revenues from governmental fund types totaled \$758.5 thousand. Virtually all of the District's revenue comes from property taxes (\$462.7 thousand) and sales taxes (\$169.3 thousand). The other sources of revenue are intergovernmental revenues from the County of Liberty, Texas (\$32.1 thousand), and interest and other income. The total expenditures from the governmental fund types were \$565.7 thousand. The District's expenditures incurred for fire protection services were \$312.5 thousand. The District also had debt service costs of \$185.1 thousand on debt associated with fire protection assets. Expenditures were higher than in 2025 by \$58.6 thousand (12%), primarily due to an increase in fire protection services.

General Fund Budgetary Highlights

The District can revise its budget during the year as needed. Actual revenue amounts were 52% higher than expected budgeted amounts, primarily due to the level of sales tax revenues realized. While expenditures had variances among the categories, overall expenditures were \$66.5 thousand (13%) higher than budgeted. Overall, the District ended the year with a \$193 thousand budget excess over expected levels.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2025, the District had invested \$2.1 million in capital assets, including a building and equipment. (See Table A-4.)

Table A-4
District's Capital Assets
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Percentage Change 2025-2024
	2025	2024	2025	2024	2025	2024	
Buildings and Improvements	\$1,181.2	\$1,179.3	(1)	(1)	\$1,181.2	\$1,179.3	0%
Trucks, Machinery & Equipment	851.8	954.7	(1)	(1)	851.8	954.7	-11%
Office Furniture & Equipment	22.7	22.7	(1)	(1)	22.7	22.7	0%
Totals	<u>2,055.7</u>	<u>2,156.7</u>	(1)	(1)	<u>2,055.7</u>	<u>2,156.7</u>	-5%
Total Accum Depreciation	<u>678.9</u>	<u>575.2</u>	(1)	(1)	<u>678.9</u>	<u>575.2</u>	18%
Net Capital Assets	<u>\$1,376.8</u>	<u>\$1,581.5</u>	(1)	(1)	<u>\$1,376.8</u>	<u>\$1,581.5</u>	-13%

(1) The District does not have any Business-type activities.

Long-term Liabilities

At the end of 2025, the District had long-term liabilities of \$257.1 thousand. (See Table A-5.)

Table A-5
District's Long-term Liabilities
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Percentage Change 2025-2024
	2025	2024	2025	2024	2025	2024	
Notes Payable	\$1,137.7	\$1,258.0	(1)	(1)	\$1,137.7	\$1,258.0	-10%
Total Long-term Liabilities	<u>\$1,137.7</u>	<u>\$1,258.0</u>	(1)	(1)	<u>\$1,137.7</u>	<u>\$1,258.0</u>	-10%

(1) The District does not have any Business-type activities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- General operating fund spending in the 2026 budget is set at \$577.7 thousand in expenditures with estimated revenues of \$676.0 thousand. This is an increase over the 2025 budget but expenditures are consistent with 2025 levels.

These indicators were taken into account when adopting the general fund budget for 2026. The District has added no major new programs or initiatives to the 2026 budget. The District's general operating fund balance is expected to increase \$98.3 thousand by the close of 2026.

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 demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Department.

BASIC FINANCIAL STATEMENTS

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Statement of Net Position and
Governmental Fund Balance Sheet
September 30, 2025

	General Fund	Adjustments (Note A)	Statement of Net Position
ASSETS			
Cash and Cash Equivalents	\$805,644	-	\$805,644
Taxes Receivable	134,424	-	134,424
Allowance for Uncollectible Taxes	(23,038)	-	(23,038)
Accrued Interest Receivable	133	-	133
Due from Other Governments	30,011	-	30,011
Prepaid Expenses	2,792	-	2,792
Capital Assets, Net of Accumulated Depreciation	-	\$1,376,753	1,376,753
Total Assets	949,966	1,376,753	2,326,719
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
Total Assets and Deferred Outflows of Resources	\$949,966		
LIABILITIES			
Accounts Payable	\$6,419	-	6,419
Accrued Interest Payable	-	44,873	44,873
Noncurrent Liabilities Due Within One Year:			
Notes Payable	-	129,586	129,586
Noncurrent Liabilities Due in More Than One Year:			
Notes Payable	-	1,008,071	1,008,071
Total Liabilities	6,419	1,182,530	1,188,949
DEFERRED INFLOWS OF RESOURCES			
Deferred Income	111,385	(111,385)	-
Total Deferred Inflows of Resources	111,385	(111,385)	-
FUND BALANCE			
Unassigned Fund Balance	832,162	(832,162)	-
Total Fund Balance	832,162	(832,162)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$949,966		
Net Position:			
Net Investment in Capital Assets		239,096	239,096
Unrestricted (Deficit)		898,674	898,674
Total Net Position		\$1,137,770	\$1,137,770

The accompanying notes are an integral part of this statement.

**NOTE A – ADJUSTMENTS FROM GOVERNMENTAL FUND
BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES:**

Total Governmental Fund Balances	\$832,162
<p>Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:</p>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,376,753
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	111,385
Payables for debt principal which are not due in the current period are not reported in the funds.	(1,137,657)
Payables for debt interest which are not due in the current period are not reported in the funds.	<u>(44,873)</u>
Net Position of Governmental Activities	<u>\$1,137,770</u>

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended September 30, 2025

	General Fund	Adjustments (Note B)	Statement of Activities
Expenditures/Expenses:			
Fire Protection Services:			
Contractual Services – Fire Protection Services	\$312,515	-	\$312,515
General Administration:			
Appraisal Services	11,686	-	11,686
Tax Collection Fees	3,895	-	3,895
Office Expenses	6,398	-	6,398
Contract Services	24,800	-	24,800
Conference Fees, Travel and Meals	6,620	-	6,620
Dues and Memberships	637	-	637
Professional Fees	9,184	-	9,184
Community Relations	2,805	-	2,805
Capital Expenditures	1,900	\$(1,900)	-
Depreciation	-	163,964	163,964
Debt Service:			
Principal	120,342	(120,342)	-
Interest	64,870	(5,737)	59,133
Total Expenditures/Expenses	565,652	35,985	601,637
General Revenues:			
Property Taxes	462,650	(382)	462,268
Penalty and Interest	11,215	-	11,215
Sales Tax	169,296	-	169,296
Intergovernmental Revenues	32,083	-	32,083
Interest Income	12,699	-	12,699
Donations and Other Income	14,231	-	14,231
Gain on Sale and/or Disposition of Assets	-	13,765	13,765
Total General Revenues	702,174	13,383	715,557
Excess/(Deficit) of Revenues Over/(Under) Expenditures Before Other Financing Sources (Uses)	136,522	(136,522)	-
Other Financing Sources (Uses)			
Insurance Proceeds	36,398	(36,398)	-
Sale of Assets	20,000	(20,000)	-
Total Other Financing Sources (Uses)	56,398	(56,398)	-
Excess/(Deficit) of Revenues Over/(Under) Expenditures	192,920	(192,920)	-
Change in Net Position	-	113,920	113,920
Fund Balance/Net Position:			
Beginning of the Year	639,242	384,608	1,023,850
End of the Year	\$832,162	\$305,608	\$1,137,770

The accompanying notes are an integral part of this statement.

NOTE B – ADJUSTMENTS FROM CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION:

Excess of Revenues over Expenditures	\$192,920
<p>Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:</p>	
Capital expenditures are an expenditure in the funds but are not an expense in the SOA.	1,900
The depreciation of capital assets used in the governmental activities is not reported in the funds.	(163,964)
Gains from disposal of capital assets are not reported in the funds, but proceeds are recorded as revenue in the funds. This is the basis in assets that were disposed.	(42,633)
Certain property taxes are deferred in the funds. This is the change in these amounts this year.	(382)
Principal payments on long-term debt is an expenditure in the funds but its not an expense in the SOA.	120,342
Interest on long-term debt is recognized as an expenditure in the funds when due, but is recognized as interest accrues in the SOA. This is the change in these amounts this year.	<u>5,737</u>
Change in Net Position	<u><u>\$113,920</u></u>

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Financial Statements
September 30, 2025

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of Liberty County Emergency Services District No. 2 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the District's more significant accounting policies:

A. Reporting Entity

Liberty County Emergency Services District No. 2 (the District) was created under the provisions of Article III Section 48-e of the Constitution of Texas. Emergency Service Districts are political subdivisions established by local voters for the purpose of raising money through ad valorem taxes on all real property located within the district. Additionally, the District receives sales tax revenue on sales within the District boundaries. The District is responsible for contracting for fire prevention and fire fighting services. For the fiscal year 2025, the District contracted with HDR Fire & Rescue to provide these services. The District is governed by a board of five commissioners. Members of the Board are appointed by the Commissioners Court of Liberty County, Texas.

The District's general purpose financial statements include the accounts of all District operations. The measure for including organizations as component units of the District was made by applying the criteria set forth in generally accepted accounting principles. The basic, but not the only, criteria for inclusion is the degree of oversight responsibility maintained by the Board of Commissioners. Examples of oversight responsibility include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Based on these criteria, no potential component unit has been excluded from these statements. As of September 30, 2025, the District does not have any component units and is not considered a component unit of any other entity.

B. Basis of Presentation and Basis of Accounting

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements. GASB Statement No. 34 provides that for special-purpose governments engaged in a single government program, the fund financial statements and the government-wide statements may be combined. The District has elected to present financial statements under this combined method. The basic financial statements of the District include (a) Management's Discussion and Analysis, (b) Government-wide Financial Statements combined with Fund Financial Statements, (c) Notes to Financial Statements; and (d) Required Supplementary Information.

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

The basis of presentation and the basis of accounting for the government-wide and fund financial statements utilized in the combined statements is discussed below:

Government-wide Statements – The Statement of Net Position and the Statement of Activities include the financial activities of the overall government. Governmental activities of the District generally are financed through intergovernmental revenues, interest income and other non-exchange transactions.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Financial Statements
September 30, 2025

Note 1 - Summary of Significant Accounting Policies (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the Statement of Activities. Program revenues include fees and charges paid by the recipients of goods or services offered by the District. Revenues that are not classified as program revenues are presented as general revenues.

Net position is the amount resulting from the consideration of other financial statement elements; that is, assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. Net position is reflected as several components, including net investment in capital assets, amounts restricted and amounts unrestricted. Net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements and Governmental Fund Types - Fund financial statements report detailed information about the District. Governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The District's fund included in this category is the general fund. This fund is the general operating fund of the District and is used to account for resources and functions traditionally associated with governments that are not required to be accounted for in another fund. The General Fund accounts for financial resources in use for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.

Combined Government-wide and Fund Financial Statements - The combined statements begin with the fund financial statements (prepared using the modified accrual basis of accounting) and include an adjustments column with brief explanations to identify items that will be included or excluded to reach a government-wide financial statement basis (prepared using the accrual basis of accounting).

C. Budgets

The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. The budget is adopted on an annual basis and revised as necessary with Board approval during the year.

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Financial Statements
September 30, 2025

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Capital Assets

General capital assets are long-lived assets of the District as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The minimum capitalization threshold is any individual item with a total cost greater than \$1,500.

The District has purchased various fire fighting equipment. All of the equipment has historically been donated to Hull-Daisetta-Raywood Fire & Rescue for their use under the contract with the District after any financial obligation with the equipment has been retired. According to the contract, the ownership of all equipment purchased by the District or with funds provided by the District reverts back to the District upon cancellation of the contract.

Capital assets are being depreciated using the straight-line method and depreciation expense for governmental assets is included in appraisal services as a direct expense. The following estimated useful lives are used for calculating depreciation expense:

	<u>Depreciable Life</u>
Building & Improvements	5-40
Trucks, Machinery and Equipment	5-7
Office Furniture and Equipment	5-7

E. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an addition to net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

F. Fund Balances

Governmental Accounting Standards Board (GASB) Statement No. 54-*Fund Balance Reporting and Government Fund Type Definitions* establishes fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

In the fund financial statements, governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board of Commissioners through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the Board of Commissioners. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in any other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Financial Statements
September 30, 2025

Note 1 - Summary of Significant Accounting Policies (Continued)

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

For the government-wide financial statements, net position are reported as restricted when constraints placed on net position are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

G. Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, as applicable to governmental entities, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Compliance and Accountability

A. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

B. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at yearend, if any, along with remarks that address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None	N/A	N/A

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Financial Statements
September 30, 2025

Note 3 - Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledged collateral is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. During the year ended September 30, 2025, the District did not have a depository contract with its bank.

A. Cash Deposits

At September 30, 2025, the carrying amount of the District's deposits (cash and certificates of deposit) was \$472,150 and \$333,494, respectively and the combined bank balance was \$830,033. The District's cash deposits at September 30, 2025, and during the year ended September 30, 2025, were covered by FDIC insurance up to \$250,000 for each bank. The District considers certificates of deposit with an initial maturity of less than one year to be cash equivalents.

B. Investments

The District is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (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, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments that are allowable for the District. These include, with certain restrictions, (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) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

C. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The District was not exposed to any credit risk at September 30, 2025.

2. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At yearend, the District had deposits of \$305,644 that were exposed to custodial credit risk. The District did not hold any investments during 2025.

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Financial Statements
September 30, 2025

Note 3 - Deposits and Investments (Continued)

3. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At yearend, the District was not exposed to concentration of credit risk.

4. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At yearend, the District was not exposed to interest rate risk.

5. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At yearend, the District was not exposed to foreign currency risk.

Note 4 - Property Taxes

Property taxes are levied by October 1 on the assessed value determined as of the prior January 1 for all real and business 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 1 of 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 fiscal year.

The tax rate for fiscal year 2025 was \$0.10 per \$100 assessed value. Taxes receivable are recorded in the General Fund, net of an allowance for uncollectible taxes. Allowances for uncollectible taxes receivable are based on historical experience in collecting property taxes. The allowance is \$23,038 as of September 30, 2025.

Note 5 - Due from Other Governments

The amounts due from other governments at yearend consist of taxes collected by the County Tax Assessor/Collector which had not yet been remitted to the District of \$2,948 and sales tax collected but not disbursed by the State of Texas of \$27,063.

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Financial Statements
September 30, 2025

Note 6 - Changes in General Fixed Assets

Governmental capital asset activity for the year ended September 30, 2025, was as follows:

	Beginning Balances	Increases	Decreases and Other	Ending Balances
<i>Capital Assets Being Depreciated:</i>				
Building and Improvements	\$1,179,276	\$1,900	-	\$1,181,176
Trucks, Machinery and Equipment	954,741	-	\$(102,900)	851,841
Office Furniture and Equipment	22,673	-	-	22,673
Total Capital Assets Being Depreciated	<u>2,156,690</u>	<u>1,900</u>	<u>(102,900)</u>	<u>2,055,690</u>
Less Accumulated Depreciation for:				
Building and Improvements	232,786	29,672	-	262,458
Trucks, Machinery and Equipment	333,696	131,648	(60,267)	405,077
Office Furniture and Equipment	8,758	2,644	-	11,402
Total Accumulated Depreciation	<u>575,240</u>	<u>163,964</u>	<u>(60,267)</u>	<u>678,937</u>
Total Capital Assets Being Depreciated, Net	<u>1,581,450</u>	<u>(162,064)</u>	<u>(42,633)</u>	<u>1,376,753</u>
Governmental Activities Capital Assets, Net	<u>\$1,581,450</u>	<u>\$(162,064)</u>	<u>\$ (42,633)</u>	<u>\$1,376,753</u>

Depreciation expense of \$163,964 is included in fire protection services.

Note 7 - Deferred Income

Deferred income consists of taxes receivable, net of an allowance for uncollectible taxes, which have not yet been recognized as revenues of the District.

Note 8 - Long-term Liabilities

The following is a summary of the changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2025:

	Beginning Balances	Increases	Decreases And Other	Ending Balances	Due in One Year
<i>Notes Payable:</i>					
First Financial Bank - note dated 10/2015, due 10/2033, interest at 4.396%, annual payments of \$76,186, secured by real estate and revenues	\$579,961	-	\$(47,252)	\$532,709	\$52,769
Southside Bank - note dated 11/2018, due 11/2028, interest at 4.37%, annual payments of \$31,016, secured by revenues	136,656	-	(25,045)	111,611	26,139
Texas Advantage Community Bank- note dated 1/2023, due 1/2033, interest at 5.54%, annual payments of \$78,009, secured by fire truck and revenues	<u>541,382</u>	<u>-</u>	<u>(48,045)</u>	<u>493,337</u>	<u>50,678</u>
Total Government-wide Long-term Liabilities	<u>\$1,258,000</u>	<u>\$-</u>	<u>\$(120,342)</u>	<u>\$1,137,657</u>	<u>\$129,586</u>

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Notes to Financial Statements
September 30, 2025

Note 8 - Long-term Liabilities (Continued)

Annual debt service requirements as of September 30, 2025 are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$129,586	\$55,626	\$185,212
2027	135,856	49,356	185,212
2028	142,433	42,779	185,212
2029	149,332	35,880	185,212
2030	125,554	28,641	154,195
2031-2035	<u>454,896</u>	<u>48,959</u>	<u>503,855</u>
	<u>\$1,137,657</u>	<u>\$261,241</u>	<u>\$1,398,898</u>

Note 9 - Contract for Fire Services

Liberty County Emergency Services District No. 2 has contracted with HDR Fire & Rescue to provide fire prevention and fire fighting services within the District boundaries.

Note 10 - Commitments, Contingencies and Risk Management

At September 30, 2025, the District had no significant litigation or other claims or assessments pending, or asserted against it, which would have a material, adverse effect on the District's financial position or future operations.

As part of the District's risk management policies, insurance coverage is obtained against loss from general liabilities of the District and its commissioners. The District's potential loss from claims or litigation would generally be limited to its deductibles.

REQUIRED SUPPLEMENTARY INFORMATION

LIBERTY COUNTY EMERGENCY SERVICES DISTRICT NO. 2
Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – General Fund
For the Year Ended September 30, 2025

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property Taxes, including P & I	\$450,000	\$450,000	\$473,865	\$23,865
Sales Taxes	38,000	38,000	169,296	131,296
Interest Income	1,150	1,150	12,699	11,549
Other Income	10,000	10,000	102,712	92,712
Total Revenues	499,150	499,150	758,572	259,422
EXPENDITURES				
Fire Protection Services	279,700	279,700	312,515	(32,815)
General Operating Expenses	32,450	32,450	67,925	(35,475)
Debt Service	187,000	187,000	185,212	1,788
Total Expenditures	499,150	499,150	565,652	(66,502)
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES				
	\$ -	\$ -	192,920	\$192,920
FUND BALANCE-October 1, 2024			639,242	
FUND BALANCE-September 30, 2025			\$832,162	

(A) Expenditures exceeded appropriations for the year. The board of commissioners reviewed and approved all expenditures during the year. However, the budget was not amended.

