

**LIMESTONE COUNTY EMERGENCY
SERVICES DISTRICT #2**

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2023

Limestone County Emergency Services District #2
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September 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Limestone County Emergency Services District #2

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the general fund of Limestone County Emergency Services District #2 (the District) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Limestone County Emergency Services District #2 as of September 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and *Government 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 and *Government 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 on pages 3-8 and 23-25 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Frank Campos & Associates PLLC

Frank Campos & Associates, PLLC
Palestine, Texas
February 6, 2024

Limestone County Emergency Services District #2 Management's Discussion and Analysis September 30, 2023

As commissioners of the Limestone County Emergency Services District #2 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended September 30, 2023. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which begin on page 9. Any references made in this discussion and analysis to the 'current year' or 'current period' refers to the year ended September 30, 2023.

OVERALL HIGHLIGHTS

The District was created to provide fire suppression, fire prevention, first response, and rescue and fire education services for the residents of the District. The District was formed at the beginning of 2012 as a result of a special election held on November 2, 2010 and passed by the residents of the District. It is governed by a Board of Commissioners (the Board) and has a fiscal year ending on September 30, which coincides to that of the county government.

Funding for the District is provided by tax revenues assessed on property owned by residents of the District as well as sales tax revenue of 2% of applicable sales within the District. District residents passed a resolution that included a tax rate not to exceed 4 cents on each one hundred dollars valuation of taxable property. The actual tax rate was set at 3.85 cents based on the budget established in July 2022 for the fiscal year ended September 30, 2023. District residents also voted on May 1, 2021 to implement a 2% sales tax within the District, which began on October 1, 2021.

FINANCIAL HIGHLIGHTS

- Total net taxable property value in 2022 for fiscal year 2023 was \$308,713,697 and the amount of property taxes estimated to be paid was \$118,967. The amount actually collected by the county tax collector as of September 30, 2023 was \$118,849 including delinquent taxes and penalties and interest.
- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$577,540 (*net position*). Of this amount, \$303,710 represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$115,370.
- At the close of the current fiscal year, the District's general fund reported a fund balance of \$300,969, an increase of \$159,381 in comparison with the prior year. Approximately 85% (\$256,449) of this amount is available for spending at the government's discretion (*unassigned fund balance*).
- Unrestricted fund balance (the total *committed, assigned, and unassigned* components of *fund balance*) for the general fund was approximately 304% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

Limestone County Emergency Services District #2
Management's Discussion and Analysis
September 30, 2023

The statement of net position presents financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, the accrual basis of accounting is used, which is similar to the accounting used by most private-sector companies. Some revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Ordinarily both of the government-wide financial statements would distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). However, since the District only has one fund - the general fund- which is a governmental fund, the District does not have a column for business-type activities.

The government-wide financial statements may be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has only one major fund, which is the general fund, and is reported as a governmental fund.

Governmental fund. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate between governmental funds and governmental activities.

The District maintains one individual governmental fund – the general fund.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 through 14 of this report. The budgetary comparison schedule and related notes can be found on pages 23 through 25 of this report.

Limestone County Emergency Services District #2
Management's Discussion and Analysis
September 30, 2023

Notes to the financial statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 15 through 22 of this report.

GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$577,540, at the close of the most recent fiscal year.

Summary Statement of Net Position

	2023	2022
ASSETS		
Current and other assets	\$ 303,710	\$ 148,510
Capital assets, net	273,830	316,791
Total assets	\$ 577,540	\$ 465,301
LIABILITIES		
Current and other liabilities	\$ -	\$ 3,131
Total liabilities	-	3,131
NET POSITION		
Net investment in capital assets	273,830	316,791
Unrestricted	303,710	145,379
Total net position	577,540	462,170
Total liabilities and net position	\$ 577,540	\$ 465,301

Current and other assets increased in governmental activities by \$155,200 (105%) from the prior year mostly due to a \$157,897 increase in cash as a result of operations. Capital assets decreased in governmental activities by \$42,961 (14%) from the prior year mostly due to current year depreciation of \$44,231.

Current and other liabilities decreased in governmental activities by \$3,131 from the prior year due to the timing of vendor invoices.

A portion of the District's net position totaling \$273,830 (47%) represents its investment in capital assets (e.g., buildings, equipment, and vehicles), net of accumulated depreciation and less any related outstanding debt that was used to acquire those assets. The District allows the West Lake Limestone Volunteer Fire Department (WLLVFD) to use those assets to serve citizens of the District. Accordingly, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining portion of net position totaling \$303,710 (53%) is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all reported categories of net position. The same situation held true for the prior fiscal year.

Limestone County Emergency Services District #2
Management's Discussion and Analysis
September 30, 2023

Summary Changes in Net Position

	2023	2022
REVENUES		
Property taxes	\$ 117,799	\$ 109,304
Sales taxes	138,056	120,672
Interest income	80	22
Total revenues	255,935	229,998
EXPENSES		
General government	28,549	24,372
Emergency services (WLLVFD)	112,016	127,627
Total expenses	140,565	151,999
Change in net position	115,370	77,999
Net position - beginning of year	462,170	384,171
Net position - end of year	\$ 577,540	\$ 462,170

Governmental activities. The overall net position increased \$115,370 (25%) from the prior fiscal year. The reason for this increase is mostly due to an 8% increase in property tax revenue, a 14% increase in sales tax revenue, and an 8% decrease in total expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Governmental funds. The focus of the District's governmental fund is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing arrangements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose either by an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's Board of Commissioners.

At September 30, 2023, the District's governmental fund reported total fund balance of \$300,969, an increase of \$159,381 in comparison with the prior year. As discussed earlier, the increase is mostly due to an increase in property and sales tax revenue. Approximately 85% (\$256,449) of total fund balance constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either nonspendable or committed to indicate that it is 1) not in spendable form (\$4,486) or 2) committed for particular purposes (\$40,034).

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 263% of total general fund expenditures, while total fund balance represents approximately 308% of that same amount.

Limestone County Emergency Services District #2
Management’s Discussion and Analysis
September 30, 2023

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. During the year, amendments to the budget were made. These amendments included the following: an overall increase of \$51,000 in budgeted revenue due to a mid-year review of revenue; an overall decrease of \$5,190 in budgeted general government expenditures mostly due to the reallocation of the budget line for miscellaneous expenditures; an overall increase of \$9,790 in budgeted emergency services expenditures mostly due to an estimated increase in apparatus repairs and maintenance; and a decrease of \$47,500 in budgeted capital outlay expenditures due to changes in plans for capital asset purchases.

Final budget compared to actual results. Total actual revenue was more than budgeted revenue by \$22,921. A review of actual expenditures compared to the appropriated expenditures shows that all categories were under-budget except for attorney fees, office supplies, professional dues, personal protective equipment, and training and travel. Total actual expenditures were less than budgeted expenditures by \$28,476.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The District’s investment in capital assets for its governmental activities as of September 30, 2023, amounts to \$273,830 (net of accumulated depreciation). This investment in capital assets includes buildings, equipment, and vehicles. The total decrease in capital assets of 14% for the current fiscal year was mostly due to current year depreciation.

Capital Assets

	2023	2022
Buildings	\$ 171,741	\$ 178,032
Equipment	32,688	49,415
Vehicles	69,401	89,344
Total capital assets, net of accumulated depreciation	\$ 273,830	\$ 316,791

Major capital asset events during the current fiscal year included the following:

- Purchase of two battery chargers for \$635 each.

Additional information on the District’s capital assets can be found in Note 4 on page 22 of this report.

Long-term Debt. At the end of the current fiscal year, the District had total debt outstanding of \$0.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The Board works closely with the WLLVFD Board. During the fiscal year ended September 30, 2014, the District Board entered into a Fire Protection contract with WLLVFD for the period May 1, 2014 through September 30, 2014 that has been renewed through August 31, 2024. The Board has generally established that the District will reimburse the WLLVFD for pre-approved costs incurred for tools and equipment, utilities and fuel, and insurance as established by the terms of the contract and the Budget.

Limestone County Emergency Services District #2
Management's Discussion and Analysis
September 30, 2023

Based on the needs of the WLLVFD, a budget was established for the fiscal year ended September 31, 2024 in which the District anticipates the following:

- A 2% increase in property tax revenue and a 14% decrease in sales tax revenue, so an overall 7% decrease in revenue.
- A 7% decrease in general government expenditures mostly due to a 92% decrease in office supplies.
- A 48% increase in emergency services expenditures mostly due to a 34% increase in insurance, a 100% decrease in personal protective equipment, a 100% increase in recruiting and personnel, a 243% increase in stipends, and a 275% increase in tools and equipment.
- A 100% decrease in capital outlay.
- Overall, a 20% increase in total expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Board of Commissioners
Limestone County Emergency Services District #2
P.O. Box 305
Groesbeck, Texas 76642

Limestone County Emergency Services District #2

Statement of Net Position

September 30, 2023

ASSETS

Current assets

Cash and cash equivalents	\$ 273,973
Property tax receivable, net of allowance for doubtful accounts of \$1,548	3,416
Sales tax receivable	21,835
Prepaid expenses	4,486
Total current assets	<u>303,710</u>

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>273,830</u>
Total noncurrent assets	<u>273,830</u>

Total assets	<u><u>\$ 577,540</u></u>
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NET POSITION

Net investment in capital assets	273,830
Unrestricted	<u>303,710</u>
Total net position	<u>577,540</u>

Total liabilities and net position	<u><u>\$ 577,540</u></u>
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See accompanying notes to the financial statements.

Limestone County Emergency Services District #2

Statement of Activities

For The Year Ended September 30, 2023

Functions/Programs	Expenses	Governmental Activities	Net Revenue (Expense) and Changes in Net Position
Governmental activities:			
General government	\$ 28,549	\$ (28,549)	
Emergency services (WLLVFD)	112,016	(112,016)	
Total governmental activities	140,565	(140,565)	
General revenues:			
Property taxes		117,799	
Sales taxes		138,056	
Interest income		80	
Total general revenues		255,935	
Change in net position		115,370	
Net position - beginning of year		462,170	
Net position - end of year		\$ 577,540	

See accompanying notes to the financial statements.

Limestone County Emergency Services District #2

Governmental Fund Balance Sheet

September 30, 2023

ASSETS

Cash	\$ 273,973
Property tax receivable, net of allowance for doubtful accounts of \$1,548	3,416
Sales tax receivable	21,835
Prepaid expenses	4,486
Total assets	<u>\$ 303,710</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - property taxes	<u>2,741</u>
Total deferred inflows of resources	2,741

FUND BALANCE

Nonspendable	4,486
Committed for:	
Capital projects	40,034
Unassigned	<u>256,449</u>
Total fund balance	300,969

Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 303,710</u>
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See accompanying notes to the financial statements.

Limestone County Emergency Services District #2

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Position

September 30, 2023

Total fund balance - balance sheet \$ 300,969

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

Capital assets net of accumulated depreciation are not financial
resources and, therefore, are not reported in the governmental
fund balance sheet.

Capital assets	561,786
Accumulated depreciation	(287,956)

Deferred outflows of resources are not available to pay
current period expenditures and, therefore, are deferred
in the governmental fund balance sheet.

Property taxes	2,741
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Total net position - statement of net position	<u>\$ 577,540</u>
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Limestone County Emergency Services District #2

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance

For The Year Ended September 30, 2023

	<u>General Fund</u>
REVENUES	
Property tax	\$ 118,849
Sales tax	138,056
Interest income	80
Total revenue	<u>256,985</u>
EXPENDITURES	
Current:	
General government	
Appraisal fees	2,844
Appreciation	2,025
Attorney fees	4,376
Audit fees	6,075
Community relations	1,542
Insurance	5,804
Office supplies	262
Professional dues	1,245
Tax assessor fee	974
Training and travel	3,166
Miscellaneous	236
Emergency services (WLLVFD)	
Accounting	210
Apparatus repairs and maintenance	15,477
Building repairs and maintenance	3,440
Fuel	6,699
Insurance	9,421
Office supplies	5,659
Personal protective equipment	3,053
Stipends	5,000
Tools and equipment	1,598
Training and travel	6,138
Utilities	11,090
Capital outlay	1,270
Total expenditures	<u>97,604</u>
Excess of revenues over expenditures	159,381
Net change in fund balance	159,381
Fund balance - beginning of year	141,588
Fund balance - end of year	<u>\$ 300,969</u>

See accompanying notes to the financial statements.

Limestone County Emergency Services District #2

Reconciliation of Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to Statement of Activities

September 30, 2023

Net change in fund balances - statement of revenues, expenditures, and changes in fund balance	\$ 159,381
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	1,270
Depreciation	(44,231)
Some revenues will be collected after yearend, but are not available soon enough to pay current year's expenditures and, therefore, are not reported in the governmental funds balance sheet.	
Property taxes	(1,050)
Governmental activities net position - statement of net position	<u>\$ 115,370</u>

See accompanying notes to the financial statements.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Limestone County Emergency Services District #2 (the District) was created to provide fire suppression, fire prevention, first response, and rescue and fire education services for the residents of the District. The District was formed at the beginning of 2012 as a result of a special election held on November 2, 2010 and passed by the residents of the District. The District provides fire and first response emergency medical services to the western geographic portion of Limestone County. It is a governmental unit of the state of Texas and is not subject to federal taxes under the Internal Revenue Code. Furthermore, it is not subject to state sales tax. The District was created and operates under Article III, Section 48-e, of the Texas Constitution, as proposed by S.J.R. No. 37, Acts of the 70th Legislature, Regular Session, 1987.

The District is governed by a Board of Commissioners that acts as the authoritative and legislative body of the entity. The Board of Commissioners elects officers for the following positions: President, Vice-President, Treasurer, Assistant Treasurer, and Secretary. No board member receives compensation for serving on the Board.

The District does not meet the criteria for inclusion as a component of any entity, nor does any entity meet the criteria for inclusion as a component unit of the District.

B. Basis of Presentation

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements include all organizations, activities, and functions that comprise the District.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units, if applicable. All fiduciary activities, if applicable, are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, if applicable, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units, if applicable, for which the primary government is financially accountable.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal services, when applicable, while business-type activities incorporate data from the enterprise funds, when applicable. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, when applicable, even though the latter are excluded from the government-wide financial statements. Because the District only operates one fund – the general fund – and it's a governmental fund, the District's government-wide financial statements do not have a column for business-type activities, and the fund financial statements do not include statements for proprietary or fiduciary funds.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

As a general rule, the effect of interfund activity, if applicable, is eliminated from the government-wide financial statements.

Governmental Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements are provided for each fund category – governmental, proprietary, and fiduciary, if applicable. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds if applicable.

The only fund of the financial reporting entity is the general fund which is the primary operating funds. It accounts for all financial resources of the District. The District does not utilize any other funds.

C. Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest expenditures on long-term debt, including lease liabilities, as well as expenditures related to compensated absences, claims and judgements, postemployment benefits, and environmental obligations, if applicable, are recognized later based on specific accounting rules applicable to each, generally when payment is due. General capital asset acquisitions, including entering into contracts giving the District the right to use leased assets, are reported as expenditures in governmental funds. Issuances of long-term debt and financing through leases are reported as other financing sources.

Property taxes and sales taxes associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term highly-liquid investments with original maturities of three months or less from the date of acquisition. The District has demand deposits with Farmers State Bank and no investments.

Receivables

In the government-wide statement of net position, receivables consist of all revenues earned at yearend and not received at yearend. In the governmental fund balance sheet, receivables consist of property taxes and sales taxes assessed but not collected at yearend. The District uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience. Since sales taxes are paid by the State Comptroller, an allowances for sales tax receivables is not considered necessary.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets are tangible and intangible assets, which include buildings, equipment, and vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

As the District constructs or acquires capital assets each period, they are capitalized and reported at historical cost (except for intangible right-to-use lease assets). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets, if applicable, follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress, if applicable, are not depreciated. The other capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-39
Equipment	5-10
Vehicles	7-15

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources if applicable. Deferred outflows of resources represent 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. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-term Debt

Long-term debt for governmental funds is not reported as a liability in the balance sheet until due. The debt proceeds are reported as other financing sources, net of applicable premium or discount, and payments of principal and interest are reported as expenditures. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position.

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided or fines imposed by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Expenses/Expenditures

On an accrual basis of accounting (government-wide financial statements), expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

Fund Balances

In governmental fund types, the difference net of assets and deferred outflows of resources less liabilities and deferred inflows of resources is called fund balance. The District's governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes.

Nonspendable Fund Balance – represents amounts that are either not in a spendable form (e.g., inventory, prepaids, etc.) or are legally or contractually required to remain intact (e.g., notes receivable).

Restricted Fund Balance – represents amounts that can be spent only for specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers.

Committed Fund Balance – represents amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the Board of Commissioners prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Board of Commissioners adopts another ordinance to remove or revise the limitation.

Assigned Fund Balance – represents amounts that are intended to be used by the District for a specific purpose but do not meet the criteria to be classified as committed. Intent may be stipulated by the Board or by an official or body to which the Board delegates the authority. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned Fund Balance – represents the residual amount for the general fund that is not contained in the other classifications. The general fund is the fund that reported a positive unassigned fund balance. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

Net Position

For government-wide reporting, the net of assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets – represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

Restricted Net Position – represents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted Net Position – represents the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amount to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – PROPERTY TAXES

Property taxes are levied October 1 on the assessed value listed as of January 1 of the same year for all real and business property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to penalties if not paid by February 1 of the year following the levy date. On January 31 of the year following the October 1 levy, a tax lien attached to property to secure the payment of all taxes and penalties is imposed for all unpaid taxes.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2023

NOTE 2 – PROPERTY TAXES (CONTINUED)

The appraisal and recording of all property within the district is the responsibility of the Limestone County Appraisal District (LCAD), an independent governmental unit. Under an Interlocal Cooperation Agreement for Ad Valorem Tax Collection Services between Limestone County and the District, property taxes are collected by Stacy Hall, Limestone County Tax Assessor Collector and forwarded to the District. The District paid LCAD \$2,844 for appraisal fees and Limestone County \$974 for tax assessor fees during the year ended September 30, 2023.

The property tax rates, established in accordance with state laws, were based on 100% of the net appraised valuation of real property within the District on the 2021 tax roll. The assessed value of the 2022 roll, upon which the current fiscal year was based, was \$308,713,697.

The tax rates assessed for the current period, to finance general fund operations for the fiscal year ended September 30, 2023, was \$0.0385 per \$100 valuation of assessed property. This amount was \$118,967 per the Tax Assessor. The amount upon which the 2023 budget was based was \$109,000, and was later increased to \$115,000.

Per Government Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, property taxes are recognized as revenues when levied. Under the accrual basis of accounting (government-wide financial statement), property tax revenue is recognized on October 1 of the current year. However, under the modified accrual basis (governmental fund statement), property tax is recognized as revenue only when it is both “measurable and available.” Revenues that are collected within sixty days of the end of the current fiscal period are considered to be available if used to pay liabilities of the current period.

Uncollected property taxes of \$2,741 as of September 30, 2023 are recognized as revenue in the government-wide financial statement and as unavailable revenue in the governmental fund statement.

NOTE 3 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that, in the event of a bank’s failure, the District’s deposits may not be returned to it. The bank deposits are required to be covered by federal deposit insurance or by collateral held by the depository bank in the District’s name. As of September 30, 2023, the District’s bank balance was \$277,901. Of this amount, \$27,901 was uninsured at yearend.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2023

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2023 was as follows:

	Balance 9/30/2022	Additions	Deletions	Balance 9/30/2023
Capital Assets				
Building	\$ 228,346	\$ -	\$ -	\$ 228,346
Equipment	139,170	1,270	-	140,440
Vehicles	193,000	-	-	193,000
Total capital assets	<u>560,516</u>	<u>1,270</u>	<u>-</u>	<u>561,786</u>
Accumulated Depreciation				
Building	(50,314)	(6,291)	-	(56,605)
Equipment	(89,755)	(17,997)	-	(107,752)
Vehicles	(103,656)	(19,943)	-	(123,599)
Total accumulated depreciation	<u>(243,725)</u>	<u>(44,231)</u>	<u>-</u>	<u>(287,956)</u>
 Total capital assets, net of accumulated depreciation	 <u>\$ 316,791</u>	 <u>\$ (42,961)</u>	 <u>\$ -</u>	 <u>\$ 273,830</u>

The land on which the fire station is located is owned by West Lake Limestone Volunteer Fire Department (WLLVFD) and leased to the District for ninety-nine years, expiring June 26, 2113, with an annual lease payment of \$1. The fire station is owned by the District, and WLLVFD has a license to use the fire station as the District's contract provider.

During fiscal year ended September 30, 2018, the District entered into an interlocal agreement with Limestone County to allow the District to build a substation at Limestone County Park #3. The land on which the substation is located is owned by Limestone County. The substation and any related structures, water tanks, utility poles, fences, and similar structures are owned, operated, and maintained by the District.

Depreciation expense of \$44,231 was charged entirely to the emergency services function of the governmental activities.

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains commercial insurance coverage for each of these risks of loss. The Board of Commissioners believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims did not exceed this commercial insurance coverage during the past three years.

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 6, 2024, the date the financial statements were available to be issued.

Limestone County Emergency Services District #2

Budgetary Comparison Schedule General Fund (Budgetary Basis)

For The Year Ended September 30, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property tax	\$ 109,000	\$ 115,000	\$ 118,174	\$ 3,174
Sales tax	75,000	120,000	139,667	19,667
Interest income	-	-	80	80
Total revenue	184,000	235,000	257,921	22,921
EXPENDITURES				
General government				
Appraisal fees	2,500	2,500	2,208	292
Appreciation	2,600	2,600	2,025	575
Attorney fees	2,000	4,500	5,119	(619)
Audit fees	6,600	6,075	6,075	-
Community relations	1,750	1,750	1,542	208
Insurance	6,875	8,785	5,825	2,960
Office supplies	500	500	463	37
Professional dues	150	300	1,245	(945)
Tax assessor fee	1,250	1,250	974	276
Training and travel	5,000	5,000	3,166	1,834
Miscellaneous	10,000	775	236	539
Total general government	39,225	34,035	28,878	5,157
Emergency services (WLLVFD)				
Accounting	50	250	210	40
Apparatus repairs and maintenance	13,000	21,500	10,657	10,843
Building repairs and maintenance	5,000	4,000	3,664	336
Fuel	12,000	7,500	7,192	308
Insurance	11,125	14,215	9,425	4,790
Office supplies	-	4,000	5,659	(1,659)
Personal protective equipment	1,000	2,500	3,422	(922)
Stipends	8,000	8,000	5,825	2,175
Tools and equipment	2,000	2,000	1,598	402
Training and travel	-	5,000	6,138	(1,138)
Utilities	14,000	12,000	11,086	914
Miscellaneous	5,000	-	-	-
Total emergency services (WLLVFD)	71,175	80,965	64,876	16,089
Capital outlay	61,000	13,500	6,270	7,230
Total expenditures	171,400	128,500	100,024	28,476
Excess of revenues over expenditures	12,600	106,500	157,897	51,397
Net change in fund balance	12,600	106,500	157,897	51,397
Fund balance - beginning of year			116,076	
Fund balance - end of year			\$ 273,973	

Limestone County Emergency Services District #2
Notes to the Budgetary Comparison Schedule
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Budgetary Process

The budgetary process has not historically been prescribed by law. However, Texas Health and Safety Code, Section 776.05 was amended on June 17, 2012 by Senate Bill 917 to read “The board may not set the tax rate for a fiscal year before the date the board adopts a budget for that fiscal year.” The Board approved in July 2022 the budget for the fiscal year ended September 30, 2023 based on the known property tax assessment available for the year, and the tax rate was set accordingly.

As part of the District’s budgetary process, the Board approves the official estimated revenues projected for the District. The estimated revenue is calculated from information from the Limestone County Appraisal District.

Estimated appropriations are prepared for the annual budget. All appropriations, no matter how small or how large, must be approved by the Board before remittance, whether or not they are included in the budget.

B. Budgetary Basis of Accounting

The District’s budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between budgetary basis and GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary process, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

Below is an explanation of differences between actual general fund balance on the budgetary comparison schedule which is prepared on the cash basis and the actual general fund balance on the statement of revenues, expenditures, and changes in fund balance, which is prepared on the modified accrual basis.

Actual general fund balance - Budgetary Comparison Schedule (Budgetary Basis)	\$	273,973
Plus current year receivables:		
Property tax, net of allowance for doubtful accounts	\$	3,416
Sales tax		21,835
		25,251
Plus current year prepaid expenditures:		
General government - insurance		728
Emergency services - insurance		3,658
Emergency services - utilities		100
		4,486
Less: current year deferred inflows of resources		
Unavailable revenue - property taxes		(2,741)
		(2,741)
Actual general fund balance - Statement of Revenues, Expenditures, and Changes in Fund Balance (Modified Accrual Basis)		\$ 300,969

Limestone County Emergency Services District #2
Notes to the Budgetary Comparison Schedule
September 30, 2023

NOTE 2 – BUDGET VARIANCES

Total actual expenditures of \$100,024 were \$28,476 less than budgeted expenditures of \$128,500 for the year ended September 30, 2023.

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

To the Board of Commissioners
Limestone County Emergency Services District #2

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Limestone Emergency Services District #2 (the District) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 6, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Frank Campos & Associates PLLC

Frank Campos & Associates, PLLC
Palestine, Texas
February 6, 2024