

**LIMESTONE COUNTY EMERGENCY
SERVICES DISTRICT #2**

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

Limestone County Emergency Services District #2
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September 30, 2017

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FRANK CAMPOS & ASSOCIATES

A Professional Limited Liability Company of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Limestone County Emergency Services District #2 (District) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Limestone County Emergency Services District #2 as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 3–7 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2018, on our consideration of the Limestone County Emergency Services District #2'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 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 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 Limestone County Emergency Services District #2's internal control over financial reporting and compliance.

Frank Campos & Associates PLLC

Frank Campos & Associates, PLLC
Palestine, Texas
May 30, 2018

Limestone County Emergency Services District # 2
Management Discussion and Analysis
September 30, 2017

As commissioners of the Limestone County Emergency Services District #2 (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, 2017. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which begin on page 8. Any references made in this discussion and analysis to the 'current year' or 'current period' refers to the year ended September 30, 2017.

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 (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.

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 4 cents based on the Budget established in September 2016 for the fiscal year ended September 30, 2017.

FINANCIAL HIGHLIGHTS

Total assessed property value for 2017 was \$230 million and the amount of property taxes estimated to be paid at the beginning of the year was \$91,619. The amount actually collected by the county tax collector as of September 30, 2017 was \$91,011.

The District's General Fund had expenditures of \$101,824 for the year ended September 30, 2017.

As of September 30, 2017, the unassigned fund balance for the General Fund was \$19,457.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion is intended to serve as an introduction to the District's basic financial statements which have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to these basic financial statements.

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 private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net 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 declining.

The statement of activities presents information showing how the District's net position changed during the 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 expenses are

Limestone County Emergency Services District # 2
Management Discussion and Analysis
September 30, 2017

reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements may be found on pages 8 and 9 of this report.

Fund financial statements. The fund financial statements can be found on pages 10 and 12 and provide detailed information about the most significant funds, not the District as a whole. 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, government fund financial statements focus on how money flows into and out of those funds and balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. For example, under the modified accrual basis of accounting, property taxes collected within sixty days after the current period are recognized as a receivable and as revenue for the current period if collected in time to pay current-period liabilities.

The government fund statements provide a detailed short-term view of the District's general government operations and the services it provides. Governmental fund information 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations found on pages 11 and 13.

Budgeting

Each year the District adopts a budget for its General Fund. A budgetary comparison has been provided for the General Fund and can be found on page 20 of this report.

Notes to the financial statements

The notes provide additional information that is essential for 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 14 - 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of government's financial position. The largest portion of the District's net position (71%) represents its investment in capital assets (e.g., equipment, vehicles, and buildings) net of accumulated depreciation and related long-term debt.

Limestone County Emergency Services District # 2
Management Discussion and Analysis
September 30, 2017

Summary Statement of Net Position

	2017	2016
ASSETS		
Other assets	\$ 48,641	\$ 58,033
Capital assets, net	338,050	332,806
Total Assets	\$ 386,691	\$ 390,839
LIABILITIES		
Other liabilities	\$ 22,005	\$ 29,218
Long-term liabilities	42,530	73,145
Total Liabilities	64,535	102,363
NET POSITION		
Invested in capital assets, net	273,515	230,443
Restricted	-	33,645
Unrestricted	48,641	24,388
Total Net Position	322,156	288,476
Total Liabilities and Net Position	\$ 386,691	\$ 390,839

Governmental activities increased the District's net position by \$33,680. Total revenues from governmental activities amounted to \$92,432, all from property taxes. The following table provides a summary of the District's operations for the years ended September 30, 2017 and September 30, 2016 respectively.

Summary Changes in Net Position

	2017	2016
REVENUES		
Property taxes	\$ 92,432	\$ 92,964
Total Revenues	92,432	92,964
EXPENSES		
General government	45,257	39,767
Contractual obligations	9,249	10,924
Interest expense on long-term debt	4,246	4,826
Total Expenses	58,752	55,517
Increase (decrease) in net position	33,680	37,447
Net position - beginning of year	288,476	251,029
Net position - end of year	\$ 322,156	\$ 288,476

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 spending at the end of the fiscal year.

At the end of the current period, the District's governmental fund reported total fund balances of \$44,063.

Limestone County Emergency Services District # 2
Management Discussion and Analysis
September 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

During the year the District:

1. Paid the \$21,203 annual payment on the note payable to Spirit Bank.
2. Paid the \$8,065 annual payment on the note payable to Citizens 1st Bank plus an additional \$8,506 to pay off the balance of the loan.
3. Purchased a fire truck for \$35,000.

Capital Assets

	2017	2016
Assets		
Equipment	\$ 91,247	\$ 91,247
Vehicles	145,000	110,000
Buildings	194,724	194,724
Total Capital Assets	430,971	395,971
Accumulated Depreciation		
Equipment	(41,265)	(29,252)
Vehicles	(29,250)	(16,500)
Buildings	(22,406)	(17,413)
Total accumulated depreciation	(92,921)	(63,165)
Total capital assets, net of accumulated depreciation	\$ 338,050	\$ 332,806

OTHER OPERATING FACTORS

The Board works closely with the WLLVFD Board. Based on the needs of the WLLVFD, a Budget was established for the fiscal year ended September 30, 2017 and is included at the end of this report as supplemental information. 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 September 2017.

The Board has generally established that the District will reimburse the WLLVFD for pre-approved costs incurred for capital and large-ticket items (training and equipment) as established by the terms of the contract and the Budget.

One of the goals of the Board is the improvement of ISO ratings. This will be achieved by providing within 4 years a new fire station and at least 3 substations for residents of the district. Building these structures is contingent on the ISO evaluation of the ESD supporting these structures as priority items needed to improve the ISO rating. Lower ratings will result potentially in lower property insurance costs for the residents.

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Limestone County Emergency Services District # 2
Management Discussion and Analysis
September 30, 2017

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Board of Commissioners
P.O. Box 305 Groesbeck, Texas 76642

Limestone County Emergency Services District #2

Statement of Net Position

September 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 44,063
Property tax receivable	<u>4,578</u>
Total Current Assets	48,641

Noncurrent Assets

Capital assets, net of accumulated depreciation	<u>338,050</u>
Total Noncurrent Assets	338,050

Total Assets	<u>\$ 386,691</u>
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LIABILITIES

Current Liabilities

Notes payable, current portion	\$ <u>22,005</u>
Total Current Liabilities	22,005

Noncurrent Liabilities

Notes payable, net of current portion	<u>42,530</u>
Total Noncurrent Liabilities	42,530

Total Liabilities	<u>64,535</u>
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NET POSITION

Invested in capital assets, net of related debt	273,515
Unrestricted	48,641

Total Net Position	<u>322,156</u>
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Total Liabilities and Net Position	<u>\$ 386,691</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, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net Revenue (Expense) and Changes in Net Position</u>
		<u>Governmental Activities</u>
Governmental Activities:		
General government	\$ 45,257	\$ (45,257)
Contractual obligations	9,249	(9,249)
Interest expense on long-term debt	4,246	(4,246)
Total Governmental Activities	<u>58,752</u>	<u>(58,752)</u>
General Revenues:		
Property taxes		<u>92,432</u>
Total General Revenues		<u>92,432</u>
Change in Net Position		33,680
Net Position - beginning of year		<u>288,476</u>
Net Position - end of year		<u>\$ 322,156</u>

See accompanying notes to the financial statements.

Limestone County Emergency Services District #2

Governmental Fund Balance Sheet

September 30, 2017

ASSETS

Cash and cash equivalents	\$ 44,063
Property tax receivable	4,578
Total Assets	<u>\$ 48,641</u>

DEFERRED INFLOWS OF RESOURCES

Deferred revenue	\$ 4,578
Total Deferred Inflows of Resources	<u>4,578</u>

FUND BALANCE

Assigned for:	
Debt service	24,606
Unassigned	<u>19,457</u>
Total Net Position	44,063
Total deferred inflows of resources and fund balance	<u>\$ 48,641</u>

See accompanying notes to the financial statements.

Limestone County Emergency Services District #2

Reconciliation of Balance Sheet to Statement of Net Position

September 30, 2017

Total fund balance - balance sheet	\$ 44,063
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$395,971, net of accumulated depreciation of \$63,165, are not financial resources and, therefore, are not reported in the governmental fund balance sheet.	338,050
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet.	(64,535)
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are deferred in the governmental fund balance sheet.	4,578
Total net position - statement of net assets	<u>\$ 322,156</u>

See accompanying notes to the financial statements.

Limestone County Emergency Services District #2

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

For The Year Ended September 30, 2017

REVENUES

Property tax	\$ 91,928
Total Revenue	<u>91,928</u>

EXPENDITURES

Current:

General Government	
Accounting	191
Appraisal fees	1,782
Attorney fees	1,857
Audit	5,800
Insurance	2,791
Postage and shipping	785
Professional dues	275
Tax assessor fee	1,041
Tools and equipment	598
Training and travel	105
Miscellaneous	276
Total General Government	<u>15,501</u>
Contractual obligations	9,249
Capital outlay	35,000
Debt service:	
Principal	37,828
Interest	4,246
Total Expenditures	<u>101,824</u>

Net Change in Fund Balance (9,896)

Fund Balance - beginning of year 53,959

Fund Balance - end of year \$ 44,063

Limestone County Emergency Services District #2

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

September 30, 2017

Net change in fund balances - statement of revenues,
expenditures, and changes in fund balance \$ (9,896)

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	35,000
Depreciation	(29,756)

The issuance of long-term debt (e.g. notes payable)
provides current financial resources to governmental
funds, while the repayment of the principal of long-term
debt consumes the current financial resources of
governmental funds. Neither transaction, however, has
any effect on net position.

Principal expenditures	37,828
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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.

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Governmental activities net position - statement of net assets	<u>\$ 33,680</u>
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Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Limestone County Emergency Services District #2 (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 accompanying 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 financial statements include all organizations, activities, and functions that comprise the District.

Government-wide Financial Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report information for the District as a whole. Governmental activities are generally financed through inter-governmental and non-exchange revenues (property taxes). Funding for the District is provided by property tax revenues assessed on property owned by residents of the District.

Government Fund Financial Statements

Separate financial statements are provided for governmental funds. The only fund of the financial reporting entity is the General Fund. The General Fund is the primary operating fund of the District and is used to account for all financial resources of the District. The general fund balance is available to the District for any purpose, provided it is expended or transferred according to the general laws of Texas and as authorized by the District Board of Commissioners.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. 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 property tax revenues to be available if they are collected within sixty days of the end of the current fiscal period.

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.

Cash and Cash Equivalents

Cash equivalents include all highly-liquid investments with a maturity of three months or less at the date of purchase. The District had cash on deposit with Farmers State Bank and no investments.

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.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. In the government fund statement receivables consist of uncollected, unearned revenues at year-end, as well as property taxes that are collected within sixty days of the end of the current fiscal period and are considered to be available to pay liabilities of the current period.

Capital Assets

General capital assets generally result from expenditures in the governmental funds and are reported as capital outlay expenditures in the government fund statement. These assets are reported on the government-wide statement of net position at cost, net of depreciation. Capital assets include the fire station and fire-fighting equipment and vehicles.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	39
Equipment	5-7
Vehicles	10

Accrued Liabilities

The District reports accrued liabilities on the statement of net position.

Fund Balances – Governmental Funds

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amount that can only be used for a specific purpose because of a formal action by the Board of Commissioners. Committed amounts cannot be used for any other purpose unless the Board removes these constraints by taking the same type of formal action.

Assigned Fund Balance – represents amounts which the Board intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board or by an official or body to which the Board delegates the authority.

Unassigned Fund Balance – represents that portion of fund equity, which is available for appropriations, in future periods, and is not restricted, committed, or assigned to specific purposes within the general fund.

When an expenditure is incurred for a purpose for which more than one fund balance classification could be used, the District considers the expenditure to be made from the most restrictive classification first.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consist of net assets reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. When an expense is incurred for a purpose for which more than one net position classification could be used, the District considers the expense to be made from the most restrictive classification first.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

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 (ICA) between Limestone County and the District, property taxes are collected by Stacy Hall, Limestone County Tax Assessor Collector and forwarded to the District. The LCAD, on behalf of the county, charged the District an appraisal fee of five cents per parcel located within the District as per the aforementioned ICA. The fee for the current period was \$1,782.

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 2015 tax roll. The assessed value of the 2016 roll, upon which the current fiscal year was based, was \$230 million.

The tax rates assessed for the current period, to finance general fund operations for the fiscal year ended September 30, 2017, was \$0.04 per \$100 valuation of assessed property. This amount was \$91,618 per the Tax Assessor. The amount upon which the 2017 budget was based was \$93,000, the difference of which is considered immaterial.

Per the Government Accounting Standards Board Statement No. 33, 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 (government 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 \$4,578 as of September 30, 2017 are recognized as revenue in the government-wide financial statement and as deferred revenue in the government fund statement.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2017

NOTE 3 – CAPITAL ASSETS

The composition of the Capital Assets is as follows:

	Balance 9/30/2016	Additions	Deletions	Balance 9/30/2017
Capital Assets				
Building	\$ 194,724	\$ -	\$ -	\$ 194,724
Equipment	91,247	-	-	91,247
Vehicles	110,000	35,000	-	145,000
Total Capital Assets	395,971	35,000	-	430,971
Accumulated Depreciation				
Building	(17,413)	(4,993)	-	(22,406)
Equipment	(29,252)	(12,013)	-	(41,265)
Vehicles	(16,500)	(12,750)	-	(29,250)
Total accumulated depreciation	(63,165)	(29,756)	-	(92,921)
 Total capital assets, net of accumulated depreciation	 <u>\$ 332,806</u>	 <u>\$ 5,244</u>	 <u>\$ -</u>	 <u>\$ 338,050</u>

NOTE 4 – LONG TERM DEBT

In 2012, the District authorized a loan of \$200,000 from Government Capital Corporation (GCC) for construction of a new fire station (NOTE 3). The loan was sold to Spirit of Texas Bank (SB) shortly after acquisition with management of disbursements and the escrow account remaining with GCC. Funds were disbursed by GCC as needed, and as of September 30, 2013, the entire amount, \$200,000 had been drawn. The loan is to be repaid in 10 annual payments of \$24,605.83 beginning June 1, 2013, and the final payment on June 1, 2022, computed at an interest rate of 3.972% per annum. The loan is secured by pledged ad valorem tax revenue.

In 2015, the District authorized a loan of \$25,000 from Government Capital Corporation (GCC) for the purchase of a new fire truck. The loan was sold to Citizens 1st Bank shortly after acquisition. The loan is to be repaid in 3 annual payments of \$9,039.12 beginning October 1, 2015, and the final payment on October 1, 2017, computed at an interest rate of 5.657% per annum. The loan is secured by pledged ad valorem tax revenue.

	Balance 9/30/2016	Additions	Retirements	Balance 9/30/2017	Due within One Year
Citizens 1st Bank - Note Payable	\$ 16,625	\$ -	\$ (16,625)	\$ -	\$ -
Spirit of Texas Bank - Note Payable	85,738	-	(21,203)	64,535	22,005
	<u>\$ 102,363</u>	<u>\$ -</u>	<u>\$ (37,828)</u>	<u>\$ 64,535</u>	<u>\$ 22,005</u>

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2017

NOTE 4 – LONG TERM DEBT (CONTINUED)

The principal and interest requirements at September 30, 2017 for the next five years and thereafter are as follows:

Year Ending September 30	Principal	Interest
2018	\$ 22,005	\$ 2,601
2019	22,891	1,715
2020	19,639	780
Total	<u>\$ 64,535</u>	<u>\$ 5,096</u>

The District is not obligated in any manner for special assessment debt.

NOTE 5 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 30, 2018, the date the financial statements were available to be issued.

Limestone County Emergency Services District #2

Budgetary Comparison Schedule General Fund

For The Year Ended September 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property tax	\$ 93,000	\$ 93,000	\$ 91,928	\$ (1,072)
Total Revenue	93,000	93,000	91,928	(1,072)
EXPENDITURES				
Administrative				
Accounting	-	-	191	(191)
Appraisal fees	2,500	2,500	1,782	718
Attorney fees	3,500	3,500	1,857	1,643
Audit	5,700	5,700	5,800	(100)
Insurance	2,200	2,200	2,791	(591)
Office supplies	2,500	2,500	-	2,500
Postage and shipping	-	-	785	(785)
Professional dues	300	300	275	25
Tax assesor fee	1,250	1,250	1,041	209
Training and travel	-	-	105	(105)
Miscellaneous	-	-	276	(276)
Total Administrative	17,950	17,950	14,903	3,047
Tools and equipment	3,200	3,200	598	2,602
Contingency	20,000	20,000	-	20,000
Emergency Services (WLLVFD)				
Capital Outlay	49,500	49,500	30,000	19,500
Contractual obligations	-	-	1,800	(1,800)
ISO Rating Improvements	5,000	5,000	5,000	-
VFD Insurance Costs	7,500	7,500	7,449	51
Total Emergency Services (WLLVFD)	62,000	62,000	44,249	17,751
Debt Service	42,850	42,850	42,074	776
Total Expenditures	146,000	146,000	101,824	44,176
Excess of Revenues over Expenditures	(53,000)	(53,000)	(9,896)	43,104
Net Change in Fund Balance	(53,000)	(53,000)	(9,896)	43,104
Fund Balance - beginning of year			53,959	
Fund Balance - end of year			\$ 44,063	

Limestone County Emergency Services District #2
Notes to the Budgetary Comparison Schedule
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 September 2016 the budget for the fiscal year ended September 30, 2017 based on the known property tax assessment available for the year, and the tax rate was set accordingly.

Estimated Resources

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.

Appropriations

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.

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.

NOTE 2 – BUDGET VARIANCES

Some expenditures budgeted by the Board were reclassified in the Budgetary Comparison Schedule – General Fund to better reflect the true nature of the expenditure.

FRANK CAMPOS & ASSOCIATES

A Professional Limited Liability Company of Certified Public Accountants

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, each major fund, and the aggregate remaining fund information of the Limestone Emergency Services District #2 (District) as of and for the year ended September 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 30, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency. (2017-01)

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

Limestone County Emergency Services District #2's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

May 30, 2018

Limestone County Emergency Services District #2
Schedule of Findings
September 30, 2017

SIGNIFICANT DEFICIENCY

2017-01

Criteria

Effective internal control over financial reporting involves identification and analysis of the risk of material misstatements to the District's financial statements. Controls should also determine how those identified risks should be managed and implement internal controls to prevent or detect and correct such misstatements.

Condition

Management has not developed policies and procedures to compute, review, and record adjusting entries and has not identified risks or designed effective controls over the preparation of the financial statements to prevent or detect material misstatements.

Cause

As with most districts this size, management has not developed policies and procedures to compute, review, and record adjusting entries and has not identified risks or designed effective controls over the preparation of the financial statements to prevent or detect material misstatements.

Effect

As a result of these policies and procedures not being developed, audit adjustments were necessary.

Recommendation

Controls should be implemented to identify and analyze the risk of material misstatements to the District's financial statements to prevent or detect material misstatements.

Views of Responsible Officials and Planned Corrective Actions

The district agrees with the findings and recommendations of the auditors but believes it is more efficient and effective to continue to rely on the auditors to perform these procedures due to the size of the District and the limit of the District's resources.

Limestone County Emergency Services District #2
Summary Schedule of Prior Year Findings
September 30, 2017

Finding

2016-01

Management has not developed policies and procedures to compute, review, and record adjusting entries and has not identified risks or designed effective controls over the preparation of the financial statements to prevent or detect material misstatements.

Current Status

See current year finding 2017-01