

**LIMESTONE COUNTY EMERGENCY
SERVICES DISTRICT #2**

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2020

Limestone County Emergency Services District #2
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September 30, 2020

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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 and general fund of Limestone County Emergency Services District #2 (the District) as of and for the year ended September 30, 2020, 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 and general fund of Limestone County Emergency Services District #2 as of September 30, 2020, 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 information on pages 3-8 and 22-24 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 April 20, 2021, on our consideration of 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 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 Limestone County Emergency Services District #2'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 Limestone County Emergency Services District #2's internal control over financial reporting and compliance.

Frank Campos & Associates PLLC

Frank Campos & Associates, PLLC
Palestine, Texas
April 20, 2021

Limestone County Emergency Services District #2

Management's Discussion and Analysis

September 30, 2020

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, 2020. 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, 2020.

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.

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 2019 for the fiscal year ended September 30, 2020.

FINANCIAL HIGHLIGHTS

- Total assessed property value in 2019 for fiscal year 2020 was \$240,029,445 and the amount of property taxes estimated to be paid was \$95,782. The amount actually collected by the county tax collector as of September 30, 2020 was \$98,322 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 \$396,051 (*net position*). Of this amount, \$64,546 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 decreased by \$3,459.
- At the close of the current fiscal year, the District's general fund reported a fund balance of \$61,572, a decrease of \$2,152 in comparison with the prior year. Approximately 59% of this amount (\$36,624) 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 58% of total general fund expenditures.

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 a private-sector business.

Limestone County Emergency Services District #2
Management's Discussion and Analysis
September 30, 2020

The *statement of net position* presents 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 declining.

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 expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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.

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 22 through 24 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 15 through 21 of this report.

Limestone County Emergency Services District #2
Management's Discussion and Analysis
September 30, 2020

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 \$396,051, at the close of the most recent fiscal year.

Summary Statement of Net Position

	2020	2019
ASSETS		
Other assets	\$ 64,546	\$ 73,190
Capital assets, net	331,505	326,941
Total assets	\$ 396,051	\$ 400,131
LIABILITIES		
Other liabilities	\$ -	\$ 621
Total liabilities	-	621
NET POSITION		
Net investment in capital assets	331,505	326,320
Unrestricted	64,546	73,190
Total net position	396,051	399,510
Total liabilities and net position	\$ 396,051	\$ 400,131

By far, the largest portion of the District's net position totaling \$331,505 (84%) represents its investment in capital assets (e.g., equipment, vehicles, and buildings) less any related outstanding debt that was used to acquire those assets. The District allows the West Lake Limestone Volunteer Fire Department 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 \$64,546 (16%) 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. However, the overall net position decreased \$3,459 (1%) from the prior fiscal year. The reason for this decrease is mostly due to a decrease in revenue because of the gain on sale of a capital asset in the prior year as well as an increase in contractual obligations which are payments to or on behalf of West Lake Limestone Volunteer Fire Department.

Limestone County Emergency Services District #2
Management's Discussion and Analysis
September 30, 2020

Summary Changes in Net Position

	2020	2019
REVENUES		
Property taxes	\$ 91,753	\$ 92,920
Interest income	13	10
Gain on sale of capital assets	-	27,000
Total revenues	91,766	119,930
EXPENSES		
General government	55,884	71,363
Contractual obligations	39,341	2,320
Interest expense on long-term debt	-	3,660
Total expenses	95,225	77,343
Change in net position	(3,459)	42,587
Net position - beginning of year	399,510	353,064
Prior period adjustment	-	3,859
Net position - end of year	\$ 396,051	\$ 395,651

Governmental activities. Governmental activities decreased the District's net position by \$3,459. Total revenues from governmental activities amounted to \$91,766. Of this amount, \$91,753 (99.99%) was revenue from property taxes.

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, 2020, the District's governmental fund reported total fund balances of \$61,572, a decrease of \$2,152 in comparison with the prior year. Approximately 59% of this amount (\$36,624) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either nonspendable or assigned to indicate that it is 1) not in spendable form (\$3,919) or 2) assigned for particular purposes (\$21,029).

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 37% of total general fund expenditures, while total fund balance represents approximately 58% of that same amount.

Limestone County Emergency Services District #2
Management's Discussion and Analysis
September 30, 2020

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. During the year, the District amended the budget to reallocate budgeted expenditures to align more with operations.

Final budget compared to actual results. Actual revenue was more than budgeted revenue. A review of actual expenditures compared to the appropriated expenditures shows that all categories were under-budget. Total actual expenditures were less than budgeted expenditures by \$17,165.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The District's investment in capital assets for its governmental activities as of September 30, 2020, amounts to \$331,505 (net of accumulated depreciation). This investment in capital assets includes equipment, vehicles, and buildings. The total increase in capital assets for the current fiscal year was approximately 1.5%.

Capital Assets

	2020	2019
Assets		
Buildings	\$ 179,048	\$ 181,370
Equipment	78,457	57,071
Vehicles	74,000	88,500
Total capital assets, net of accumulated depreciation	\$ 331,505	\$ 326,941

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

- Station remodel totaling \$3,200.
- Purchase of personal protection equipment totaling \$6,087.
- Repairs to truck totaling \$9,634.
- Purchase of ladders and other equipment totaling \$20,096.

Additional information on the District's capital assets can be found in Note 3 on pages 20 through 21 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. Based on the needs of the WLLVFD, a Budget was established for the fiscal year ended September 30, 2020 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 August 31, 2021.

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, 2020

One of the goals of the Board is the improvement of ISO ratings. This will be achieved by providing a new fire station and at least three 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.

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, 2020

ASSETS

Current assets

Cash and cash equivalents	\$ 38,576
Property tax receivable	2,974
Other receivables	19,077
Prepaid expenses	<u>3,919</u>
Total current assets	64,546

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>331,505</u>
Total noncurrent assets	331,505

Total assets	<u><u>\$ 396,051</u></u>
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NET POSITION

Invested in capital assets, net of related debt	331,505
Unrestricted	<u>64,546</u>
Total net position	396,051

Total liabilities and net position	<u><u>\$ 396,051</u></u>
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Limestone County Emergency Services District #2

Statement of Activities

For The Year Ended September 30, 2020

Functions/Programs	Expenses	Net Revenue (Expense) and Changes in Net Position Governmental Activities
Governmental activities:		
General government	\$ 55,884	\$ (55,884)
Contractual obligations	39,341	(39,341)
Total governmental activities	95,225	(95,225)
 General revenues:		
Property taxes		91,753
Interest income		13
Total general revenues		91,766
 Change in net position		(3,459)
 Net position - beginning of year		399,510
Net position - end of year		\$ 396,051

See accompanying notes to the financial statements.

Limestone County Emergency Services District #2

Governmental Fund Balance Sheet

September 30, 2020

ASSETS

Cash	\$ 38,576
Property tax receivable	2,974
Other receivables	19,077
Prepaid expenses	3,919
Total assets	<u>\$ 64,546</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - property taxes	<u>2,974</u>
Total deferred inflows of resources	2,974

FUND BALANCE

Nonspendable	3,919
Assigned for:	
Capital projects	21,029
Unassigned	<u>36,624</u>
Total fund balance	61,572

Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 64,546</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, 2020

Total fund balance - balance sheet \$ 61,572

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	492,287
Accumulated depreciation	(160,782)

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

2,974

Total net position - statement of net position	<u>\$ 396,051</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, 2020

	<u>General Fund</u>
REVENUES	
Property tax	\$ 97,624
Interest income	13
Total revenue	<u>97,637</u>
EXPENDITURES	
Current:	
General government	
Accounting	1,339
Appraisal fees	2,134
Attorney fees	1,976
Audit	5,850
Community relations	1,686
Insurance	3,194
Office supplies	489
Tax assessor fee	957
Training and travel	899
Miscellaneous	2,638
Contractual obligations:	
Insurance	8,623
Tools and equipment	11,516
Utilities and fuel	14,535
Training and travel	508
Other	4,428
Capital outlay	<u>39,017</u>
Total expenditures	<u>99,789</u>
Excess of expenditures over revenues	(2,152)
Net change in fund balance	(2,152)
Fund balance - beginning of year	63,724
Fund balance - end of year	<u><u>\$ 61,572</u></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, 2020

Net change in fund balances - statement of revenues, expenditures, and changes in fund balance	\$ (2,152)
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	39,017
Depreciation	(34,453)
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.	(5,871)
Governmental activities net position - statement of net position	<u>\$ (3,459)</u>

See accompanying notes to the financial statements.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2020

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 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.

Governmental 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, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property 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.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or 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 yet received. In the governmental fund balance sheet, receivables consist of uncollected, unearned revenues at yearend, as well as property taxes that are collected within sixty days of the end of the current fiscal period which are considered to be available to pay liabilities of the current period. Other receivables include repayments owed to the District from the West Lake Volunteer Fire Department for over-reimbursement of expenditures during the year.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 asset purchases in governmental funds are reported as capital outlay in the governmental fund statement of revenues, expenditures, and changes in fund balance. 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. Capital assets are considered assets with an initial cost of \$500 or more and an estimated useful life in excess of one year.

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

Assets	Years
Buildings	39
Equipment	5-10
Vehicles	10

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents 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.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided 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.

Fund Balances

In the fund financial statements, governmental funds report fund balance categorized as nonspendable, restricted, committed, assigned, or unassigned.

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to maintain intact (such as notes receivable).

Restricted Fund Balance – represents amounts that are constrained by external parties (such as debt covenants, grantors, other governments, etc.) or enabling legislation.

Committed Fund Balance – represents amounts 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.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net Position

Net position represents the difference between assets and liabilities and is categorized as net investment in capital assets, restricted, or unrestricted.

Net Investment in Capital Assets – represents 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.

Restricted Net Position – represents net position 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.

Unrestricted Net Position – represents the portion of net position, which is not restricted or part of net investment in capital assets and may be used to meet the District's ongoing obligations to its citizens and creditors.

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.

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 District paid LCAD \$2,134 for appraisal fees and Limestone County \$957 for tax assessor fees during the year ended September 30, 2020.

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 2018 tax roll. The assessed value of the 2019 roll, upon which the current fiscal year was based, was \$240,029,445.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2020

NOTE 2 – PROPERTY TAXES (CONTINUED)

The tax rates assessed for the current period, to finance general fund operations for the fiscal year ended September 30, 2020, was \$0.04 per \$100 valuation of assessed property. This amount was \$95,782 per the Tax Assessor. The amount upon which the 2020 budget was based was \$97,174, the difference of which is considered immaterial.

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 \$2,974 as of September 30, 2020 are recognized as revenue in the government-wide financial statement and as unavailable revenue in the governmental fund statement.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 was as follows:

	Balance 9/30/2019	Additions	Deletions	Balance 9/30/2020
Capital Assets				
Building	\$ 214,524	\$ 3,200	\$ -	\$ 217,724
Equipment	93,746	35,817	-	129,563
Vehicles	145,000	-	-	145,000
Total Capital Assets	453,270	39,017	-	492,287
 Accumulated Depreciation				
Building	(33,154)	(5,522)	-	(38,676)
Equipment	(36,675)	(14,431)	-	(51,106)
Vehicles	(56,500)	(14,500)	-	(71,000)
Total accumulated depreciation	(126,329)	(34,453)	-	(160,782)
 Total capital assets, net of accumulated depreciation	<u>\$ 326,941</u>	<u>\$ 4,564</u>	<u>\$ -</u>	<u>\$ 331,505</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.

Limestone County Emergency Services District #2
Notes to the Financial Statements
September 30, 2020

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of \$34,453 was charged entirely to the general government function of the governmental activities.

NOTE 4 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 20, 2021, the date the financial statements were available to be issued.

Limestone County Emergency Services District #2

Budgetary Comparison Schedule General Fund (Cash Basis)

For The Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property tax	\$ 97,174	\$ 97,174	\$ 97,624	\$ 450
Interest income	-	-	13	13
Total revenue	<u>97,174</u>	<u>97,174</u>	<u>97,637</u>	<u>463</u>
EXPENDITURES				
Administrative				
Accounting	800	1,659	1,659	-
Appraisal fees	2,200	2,213	2,213	-
Attorney fees	1,500	2,277	2,277	-
Audit	5,750	5,850	5,850	-
Community relations	4,154	4,154	1,686	2,468
Insurance	13,260	4,583	3,499	1,084
Office supplies	250	489	489	-
Professional dues	150	150	-	150
Tax assessor fee	1,250	1,250	957	293
Training and travel	500	899	899	-
Miscellaneous	13,938	6,176	2,638	3,538
Total administrative	<u>43,752</u>	<u>29,700</u>	<u>22,167</u>	<u>7,533</u>
Scholarship	5,000	5,000	-	5,000
Emergency services (WLLVFD)				
Capital outlay	6,913	32,181	31,229	952
Insurance	-	8,677	8,677	-
Tools and equipment	35,601	13,673	11,516	2,157
Utilities and fuel	13,008	14,535	13,053	1,482
Training and travel	-	508	508	-
Other	4,200	4,200	4,159	41
Total emergency services (WLLVFD)	<u>59,722</u>	<u>73,774</u>	<u>69,142</u>	<u>4,632</u>
Total expenditures	<u>108,474</u>	<u>108,474</u>	<u>91,309</u>	<u>17,165</u>
Excess of revenues over expenditures	(11,300)	(11,300)	6,328	17,628
Net change in fund balance	(11,300)	(11,300)	6,328	17,628
Fund balance - beginning of year	17,300	17,300	32,248	14,948
Fund balance - end of year	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 38,576</u>	<u>\$ 32,576</u>

Limestone County Emergency Services District #2
Notes to the Budgetary Comparison Schedule
September 30, 2020

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 September 2019 the budget for the fiscal year ended September 30, 2020 based on the known property tax assessment available for the year, and the tax rate was set accordingly.

B. 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.

C. 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.

D. 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 (Cash Basis)	\$	38,576
Plus current year prepaid expenditures:		
Appraisal fees	\$	590
Insurance		437
Emergency services - insurance		2,892
		3,919
Plus current year over-payment receivable		19,077
Actual general fund balance - Statement of Revenues, Expenditures, and Changes in Fund Balance (Modified Accrual Basis)	\$	61,572

Limestone County Emergency Services District #2
Notes to the Budgetary Comparison Schedule
September 30, 2020

NOTE 2 – BUDGET VARIANCES

Total appropriations exceeded expenditures by \$17,165 for the year ended September 30, 2020.



**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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 20, 2021.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 20-001 that we consider to be a material weakness.

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*.

Limestone County Emergency Services District #2's Response to Findings

Limestone County Emergency Services District #2's response to the finding identified in our audit is described in the accompanying schedule of findings. 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
April 20, 2021

Limestone County Emergency Services District #2
Schedule of Findings
September 30, 2020

Material Weaknesses

20-001: Duplicate Reimbursements to Volunteer Fire Department

Criteria

Basic internal controls over purchasing includes an approval process in which invoices and requests for reimbursement are reviewed and compared to expenditures already made prior to payment.

Condition

During the audit, we noted that the District reimbursed the West Lake Limestone Volunteer Fire Department (WLLVFD) for five invoices totaling \$19,077 twice.

Cause

Per WLLVFD's request, the District paid WLLVFD \$27,133 in fiscal year 2019 for repairs and equipment to be purchased in fiscal year 2020. When the actual purchases of \$28,633 were made in fiscal year 2020 by WLLVFD, they submitted \$17,377 worth of invoices to the District for reimbursement even though they had already been prepaid by the District in fiscal year 2019. The District failed to identify prepayment and reimbursed WLLVFD for the invoices in fiscal year 2020.

In addition, the WLLVFD submitted one invoice totaling \$3,200 for remodel expenses which was reimbursed by the District in fiscal year 2020. Then the WLLVFD submitted the same invoice as a request for reimbursement which the District paid again in fiscal year 2020.

Effect or Potential Effect

The effects were material misstatements of the City's financial report. The potential effects from these conditions, if not corrected, include the risk of error or fraud going undetected.

Recommendation

We recommend the District implement a formal reimbursement process in which the WLLVFD submits a reimbursement request with the related invoices and a board member of the District reviews the request and invoices and compares to records of reimbursements already made prior to approving reimbursement to WLLVFD to mitigate duplicate reimbursements. For debit card purchases, we recommend that a board member of the District review in detail any purchases and related invoices on a monthly basis and compare to records of reimbursements paying close to attention to similar purchases, amounts, and vendors.

Management's Response

The District agrees with the finding and recommendations of the auditors and will implement the recommendations as described above.

Limestone County Emergency Services District #2
Summary Schedule of Prior Year Audit Findings
September 30, 2020

Finding

Current Status

None reported