
SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

REPORT ON FINANCIAL STATEMENTS
(With Supplemental Material)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

BREEDLOVE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

December 20, 2022

Board of Commissioners
Southwest Leon County Emergency Services District No. 2
Hilltop Lakes, Texas

Opinion

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Leon County Emergency Services District No. 2, as of and for the year ended September 30, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Leon County Emergency Services District No. 2, as of September 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southwest Leon County Emergency Services District No. 2, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southwest Leon County Emergency Services District No. 2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southwest Leon County Emergency Services District No. 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southwest Leon County Emergency Services District No. 2's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison on pages 3 through 7 and 19 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.

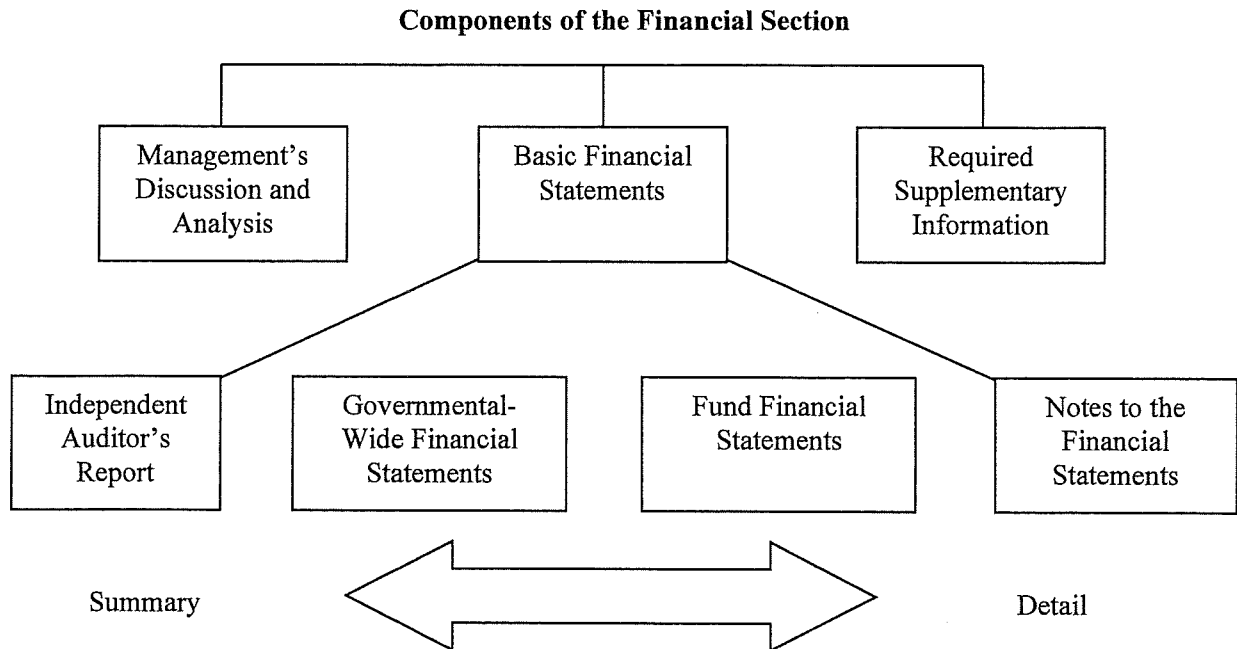
Breathers & Co., P.C.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT DISCUSSION & ANALYSIS SEPTEMBER 30, 2022

This discussion and analysis of Southwest Leon County Emergency Services District No. 2's (the District) financial statements provides an overview of the District's financial performance during the fiscal year ended September 30, 2022. Because the Management's Discussion and Analysis (MD&A) is designed to focus on current activities, resulting changes and current known facts, please read in conjunction with the District's financial statements and footnotes. Responsibility for this information rests with the management of the District.

STRUCTURE OF OUR ANNUAL REPORT



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about costs of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the District's financial statements, report on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT DISCUSSION & ANALYSIS

SEPTEMBER 30, 2022

(Continued)

The Statement of Net Position presents information on all the District's assets and liabilities and deferred inflows and outflows. The difference between these is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors, such as the District's property tax base, need to be considered to assess overall health of the District.

The Statement of Net Position and the Statement of Activities present the District using one class of activity:

Governmental Activities - The District's emergency service operations are reported here.

The government-wide financial statements (Statement of Net Position and Statement of Activities) can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the District. They are usually segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The District's operations are reported using governmental funds.

Governmental Funds

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 year. Such information may be useful in evaluating the District's near term financing requirements.

Because the focus of governmental funds is narrower than 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains one individual governmental fund. Information is presented in the governmental fund's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be a major fund.

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

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT DISCUSSION & ANALYSIS

SEPTEMBER 30, 2022

(Continued)

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found after the financial statements within this report.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also contains certain RSI. The RSI that GASB Statement No. 34 requires is the inclusion of a budgetary comparison schedule for the general fund. The RSI can be found after the notes to the financial statements within this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. For the District, assets exceeded liabilities by \$426,103 as of year-end.

Statement of Net Position

The following table reflects condensed information on the District's net position:

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2022</u>	<u>2021</u>	
Assets			
Current Assets	<u>\$ 436 881</u>	<u>\$ 388 018</u>	<u>\$ 48 863</u>
Total Assets	<u>436 881</u>	<u>388 018</u>	<u>48 863</u>
Liabilities			
Current Liabilities	<u>10 778</u>	<u>8 629</u>	<u>2 149</u>
Total Liabilities	<u>10 778</u>	<u>8 629</u>	<u>2 149</u>
Total Net Position	<u>\$ 426 103</u>	<u>\$ 379 389</u>	<u>\$ 46 714</u>

The balance of unrestricted net position, \$426,103 may be used to meet the District's ongoing emergency service operations. The overall condition of the District is beginning to experience a decline with expenses continuing to be in excess of revenues throughout the year and as currently projected in the coming year.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT DISCUSSION & ANALYSIS

SEPTEMBER 30, 2022

(Continued)

Statement of Activities

The Statement of Activities presents the operating results of the District. The following table reflects condensed information on the District's operations for the fiscal years ended September 30, 2022 and September 30, 2021:

	<u>Governmental Activities</u>	
	<u>2022</u>	<u>2021</u>
Revenues		
Property Taxes	\$ 272 698	\$ 259 815
Other Income	<u>19 506</u>	<u>17 932</u>
Total Revenues	<u>292 204</u>	<u>277 747</u>
Expenditures/Expenses		
Contract Emergency Services	215 000	205 000
Other Expenditures	<u>30 490</u>	<u>32 226</u>
Total Expenditures/Expenses	<u>245 490</u>	<u>237 226</u>
Increase in Net Position	46 714	40 521
Net Position - Beginning of Year	<u>379 389</u>	<u>338 868</u>
Net Position - End of Year	<u>\$ 426 103</u>	<u>\$ 379 389</u>

Property tax revenues increased during 2022 due to an increase in valuation of properties within the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The district's general fund reflects a fund balance of \$343,721, which is an increase of \$42,820 from the prior year. This increase is attributed to the increase in appraised property values.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

MANAGEMENT DISCUSSION & ANALYSIS

SEPTEMBER 30, 2022

(Continued)

GENERAL FUND BUDGET HIGHLIGHTS

Actual general fund revenues were more than budgeted revenues by \$22,890 during the year. This variance is attributable to payment in lieu of taxes and property taxes being more than expected during the year. Actual expenditures in the general fund were more than budgeted expenditures by \$3,207. This variance is mostly attributed to unexpected emergency service expenditures during the year.

ECONOMIC FACTORS

Provision of rural emergency services (Fire and Emergency Medical Services/EMS) is critical, but often faces challenges of underfunding. Rural areas, such as the region covered by the District, tend to be more sparsely populated, have more limited growth in new taxable property, and often have aging populations with a higher than average demand for EMS support. The District has experienced very limited growth in permanent and predictable taxable property, property values which have been quite flat, and the loss of significant mineral-based taxable property over the past seven years. The District also is subject to (state) constitutional limitation on its property tax rate and is currently at the maximum rate.

The District, in coordination with its service provider, has reduced District operating expenses significantly. And, the District has a long-range planning process to identify potential additional resources, make financial resource projections, and analyze potential service configurations. The District has also provided information to the citizens fully describing its economic challenges. The District's Board of Commissioners intends to continue this three-pronged approach of expense management, long range planning and the enlistment of community support.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be directed to Tiffani McKinney, Treasurer, Southwest Leon County Emergency Services District No. 2, P.O. Box 1623, Hilltop Lakes, Texas 77871.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2022

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 148 008	\$ -	\$ 148 008
Investments	205 993	-	205 993
Taxes Receivable	82 382	-	82 382
Due from Tax Assessor	498	-	498
Total Assets	<u>\$ 436 881</u>	<u>\$ -</u>	<u>\$ 436 881</u>
<u>LIABILITIES</u>			
Liabilities			
Accounts Payable	<u>\$ 10 778</u>	<u>\$ -</u>	<u>\$ 10 778</u>
Total Liabilities	<u>10 778</u>	<u>-</u>	<u>10 778</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Revenue - Property Taxes	<u>82 382</u>	<u>(82 382)</u>	<u>-</u>
<u>FUND BALANCE/NET POSITION</u>			
Fund Balances			
Unassigned	<u>343 721</u>	<u>(343 721)</u>	<u>-</u>
Total Fund Balance	<u>343 721</u>		
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 436 881</u>		
Net Position			
Unrestricted		<u>426 103</u>	<u>426 103</u>
Total Net Position		<u>426 103</u>	<u>426 103</u>
Total Liabilities, Deferred Inflows of Resources and Net Position		<u>\$ -</u>	<u>\$ 436 881</u>

See Independent Auditors' Report and the accompanying Notes to Financial Statements

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property Taxes	\$ 268 804	\$ 3 894	\$ 272 698
Payments in Lieu of Taxes	12 366	-	12 366
Penalty and Interest on Property Taxes	6 007	-	6 007
Interest Earned on Temporary Investments	978	-	978
Other Income	155	-	155
Total Revenues	288 310	3 894	292 204
Expenditures/Expenses			
Appraisal District Fees	5 348	-	5 348
Bank Charges	15	-	15
Collection Fees	2 368	-	2 368
Contracted Emergency Services	215 000	-	215 000
Contributions	5 000	-	5 000
Dues and Subscriptions	302	-	302
Election Expenses	1 736	-	1 736
Insurance	1 778	-	1 778
Office Expenses	314	-	314
Professional Services	12 498	-	12 498
Training	1 131	-	1 131
Total Expenditures/Expenses	245 490	-	245 490
Excess of Revenues Over Expenditures	42 820	3 894	46 714
Fund Balance/Net Position			
Beginning of Year	300 901	78 488	379 389
End of Year	\$ 343 721	\$ 82 382	\$ 426 103

See Independent Auditors' Report and the accompanying Notes to Financial Statements

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2022

NOTE (1) CREATION OF DISTRICT

Southwest Leon County Emergency Services District No. 2 (the "District") is a government entity which provides emergency service to the citizens of Southwest Leon County. The District is not a component unit of another governmental entity. The District was approved by the qualified voters therein of Southwest Leon County in 2002. The purpose of the District is to provide funding for emergency ambulance and fire services and medical aid, generally within the boundaries of Southwest Leon County.

NOTE (2) SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The District follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39; *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the District is financially accountable. The District is not a participant in any joint venture and has not identified any entities which would be components units of the District.

The District is a special-purpose government that is governed by a separately appointed governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District.

B. BASIS OF PRESENTATION

The financial transactions of the District are recorded in an individual fund. The funds are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. The funds are reported by generic classification within the financial statements.

The District uses the following fund types:

a. Governmental Funds

General Fund - To account for all revenues and expenditures not required to be accounted for in other funds.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

(Continued)

NOTE (2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

b. Fund Balances

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Government Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., board of directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the board of directors or by an official or body to which the board of directors delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose.

The District uses the following classifications for net position:

Net Investment in Capital Assets - To indicate the value of capital invested in capital assets less accumulated depreciation, net of associated debt.

Restricted - To indicate the funds restricted within the General Fund for the purposes of contingencies or emergencies. The board must approve any change in the restriction of this fund balance.

Unrestricted - To indicate net position that is available for use in future period.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

(Continued)

NOTE (2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF ACCOUNTING

All Governmental Funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded in the accounting period in which they become available and measurable. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which the fund liability is incurred, if measurable. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

The District has adopted GASB 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." In compliance with GASB 34, the District has presented a Statement of Net Position and Statement of Activities for the year ended September 30, 2022. These statements are presented on an accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded in the period they are earned, and expenses are recorded in the period they are incurred. The "Adjustments" column on these statements represents tax revenues adjusted to reflect an accrual basis rather than a modified accrual basis of accounting. All fund balances are adjusted to reflect net position.

D. BUDGET

The District annually adopts a budget for the General Fund in accordance with the accounting principles applicable to this fund. The Board of Commissioner's approval is required for revisions that alter the total expenditures. Reported budgeted amounts are as originally adopted. Budgeted amounts lapse annually.

E. CASH EQUIVALENTS

The District considers all highly liquid investments with a maturity of twelve months or less from the date of acquisition to be cash equivalents. As of September 30, 2022, the District's cash and cash equivalents consisted of demand deposits and certificates of deposit, with maturities not exceeding three months.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Management considers accounts receivable to be fully collectible at year-end; accordingly, no allowance for doubtful accounts is required.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(Continued)**

NOTE (2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position and governmental funds balance sheet are different because:

Total Fund Balance at September 30, 2022	\$	343 721
Conversion of property tax assessments to full accrual basis		<u>82 382</u>
Total Net Position at September 30, 2022	\$	<u>426 103</u>

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

Change in fund balance	\$	42 820
Conversion of property tax assessments to full accrual basis		<u>3 894</u>
Change in net position of governmental activities	\$	<u>46 714</u>

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(Continued)**

NOTE (3) DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

The contracted depository bank used by the District was Prosperity Bank. The largest cash, savings, and time deposit combined balance during the year ended September 30, 2022 was \$364,405 and occurred in March 2022. These deposits were secured by FDIC coverage of \$250,000. The balance at this bank exceeded the insured balance at various times during the year, but was adequately insured at year end.

The District's deposits are categorized at year-end to give an indication of the level of risk assumed by the district at year-end. The categories are described as follows:

Insured	\$ 148 008
Collateralized:	
Collateral held by financial institution in the entity's name	-
Uninsured and uncollateralized	-
Total Deposits	<u>\$ 148 008</u>

At the balance sheet date, deposits with a carrying value of \$205,993 consisted of certificates of deposit with Prosperity Bank and Normangee State Bank.

The largest balance at Normangee State Bank was \$140,298 and occurred in September 2022. These deposits were secured by FDIC coverage. The balance at this bank was adequately insured throughout the year.

Investment Policies

Local governments are subjected to the Public Funds Investment Act as amended during the 1995 legislative session. The Act directs local governments to adopt a written investment policy that primarily emphasizes safety of principal and liquidity. Also addressed under the Act are the areas of investment diversification, yield, maturity, and quality of investment management. The District has complied with the Act's provisions during its fiscal year ended September 30, 2022.

Statutes authorize the District to invest in direct or indirect obligations of the United States, the state, or any county, school district, or other political subdivision of the state. Funds of the District may also be placed in certificates of deposit of state or national banks or savings associations within the state.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

(Continued)

NOTE (4) AD VALOREM TAX

During the year ended September 30, 2022, the District levied an ad valorem tax at the rate of \$0.10 per \$100 of assessed valuation, which resulted in a tax levy of \$270,243 for 2022, on the taxable valuation of \$270,243,210 for the 2022 tax year. The ad valorem tax was due upon receipt and was considered delinquent if not paid by February 1, at which time penalties and interest were assessed. The levy date of the tax was the prior October 1, or as soon after October 1 as it took to set the tax rate. The lien date was January 1 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and unearned revenue at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2022, included collections during the current period or within 60 days of year-end related to the 2021 and prior years' tax levies.

NOTE (5) CONTRACTUAL AGREEMENTS

The District entered into a contract with the Hilltop Lakes Volunteer Fire Department (HLVFD), an unrelated organization to provide fire protection and emergency medical services to the residents and commercial interests within the boundaries of the geographic district. The District's current contract provides approximately 33% of HLVFD's annual budget. The remaining 67% is comprised mainly of donations, security and EMS fees the HLVFD charges for security and ambulance services. The contract amount due to HLVFD is determined annually, based upon discussions between the District and HLVFD.

On July 15, 2020, the District entered into a contract with the City of Garland, Texas (the City). The City has acknowledged the importance of real property ad valorem tax revenues and the provision of public health and safety services to persons and property within the District. The agreement states that while the City is otherwise exempt from paying ad valorem taxes, they will make voluntary payments in lieu of taxes based upon the amount that would have been paid had the City not otherwise have been exempt. Payments will be remitted to the District annually no later than January 31. This contract will terminate immediately should a) there be a change in Texas law which removes the tax-exempt status b) any change in Texas Utilities Code 35.009 or any other applicable state or federal statute that negatively impacts the City's ability to recover through the utility's wholesale transmission rate, or c) the City is not permitted to recover payments in lieu of ad valorem tax payments by the Public Utility Commission of Texas or any other regulatory agency. During the fiscal year ended the City remitted \$12,366 to the District.

NOTE (6) RISK MANAGEMENT

The District is exposed to various risks of loss from torts; business interruption; errors and omissions; natural disasters and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. As of September 30, 2022, there were no known claims.

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(Continued)

NOTE (7) FUNCTIONAL EXPENSES

Expenses related to providing services are categorized as follows:

Emergency Services	\$ 215 000
Management and General	<u>30 490</u>
Total Expenses	<u>\$ 245 490</u>

NOTE (8) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 20, 2022 (the date the financial statements were available to be issued) and noted no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHWEST LEON COUNTY EMERGENCY SERVICES DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	Actual	Original and Final Budget *	Variance Positive (Negative)
Revenues:			
Property Taxes	\$ 268 804	\$ 248 931	\$ 19 873
Payments in Lieu of Taxes	12 366	12 450	(84)
Penalty and Interest on Property Taxes	6 007	2 891	3 116
Interest Earned on Investments	978	1 148	(170)
Other Income	155	-	155
Total Revenues	<u>288 310</u>	<u>265 420</u>	<u>22 890</u>
Expenditures/Expenses:			
Advertising	-	200	200
Appraisal District Fees	5 348	6 735	1 387
Bank Charges	15	50	35
Collection Fees	2 368	2 860	492
Contributions	5 000	-	(5 000)
Contracted Emergency Services	215 000	215 000	-
Dues and Subscriptions	302	622	320
Election Expenses	1 736	-	(1 736)
Insurance	1 778	1 900	122
Miscellaneous Expenses	-	250	250
Office Expenses	314	541	227
Professional Services	12 498	11 000	(1 498)
Training	1 131	3 125	1 994
Total Expenditures/Expenses	<u>245 490</u>	<u>242 283</u>	<u>(3 207)</u>
Excess of Revenues over Expenditures	42 820	23 137	19 683
Fund Balance			
Beginning of the Year	<u>300 901</u>	<u>300 901</u>	<u>-</u>
End of the Year	<u>\$ 343 721</u>	<u>\$ 324 038</u>	<u>\$ 19 683</u>

* Budget was not amended during the year. Therefore, the original budget is the same as the final budget.

BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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JILL A. HENZE, CPA
President

NICOLE BREEDLOVE HUNT, CPA
CEO

December 20, 2022

The Board of Commissioners
Southwest Leon County Emergency Services District No. 2
Hilltop Lakes, Texas 77871

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Leon County Emergency Services District No. 2 (“the District”) for the year ended September 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 14, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2022. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements for the year ended September 30, 2022.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management will correct all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and correct by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Southwest Leon County Emergency Services District No. 2's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The auditor noted that funds in bank accounts were not adequately secured on multiple instances throughout the year. The amounts in excess of FDIC insurance of \$250,000 are subject to credit risk. We recommend an agreement be signed with the bank to internally pledge securities for amounts in excess of \$250,000.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis and Budgetary Comparisons, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Commissioners and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Jill A. Henze

