

**VAN ZANDT COUNTY EMERGENCY
SERVICES DISTRICT NO. 3**

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2021

VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

ANNUAL FINANCIAL REPORT

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	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditor’s Report	1 – 2
Management’s Discussion and Analysis	3 – 7
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet – Governmental Fund	10
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund	14
Notes to the Financial Statements	15 – 21
COMPLIANCE SECTION	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 – 23

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Van Zandt County Emergency Services District No. 3
Canton, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Van Zandt County Emergency Services District No. 3, as of and for the year ended September 30, 2021, and the related notes to the financial statements which collectively comprise the Van Zandt County Emergency Services District No. 3's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Van Zandt County Emergency Services District No. 3's 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 of 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 auditors' judgement, 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.

OFFICE LOCATIONS

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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 the major fund of the Van Zandt County Emergency Services District No. 3, as of September 30, 2021, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity 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 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 August 12, 2022, on our consideration of the Van Zandt County Emergency Services District No. 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial report or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Van Zandt County Emergency Services District No. 3's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
August 12, 2022

VAN ZANDT EMERGENCY SERVICES DISTRICT NO. 3

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2021

As management of the Van Zandt County Emergency Services District No. 3 ("ESD"), we offer readers of the ESD's financial statements this narrative overview and analysis of the financial activities of the ESD for the fiscal year ended September 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the ESD's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

- The assets of the ESD exceeded its liabilities at the close of the fiscal year by \$938,936 (net position). Of this amount, \$663,897, or 71%, is considered unrestricted and may therefore be used to meet the ESD's on-going operating costs. \$275,039, or 29%, is net investment in capital assets, which does not directly generate revenue and is not available for future spending.
- The government's total net position increased by \$203,474 as the result of increases in property tax revenues and cost savings in comparison to budgeted expenses.
- As of the close of the current fiscal year, the ESD's governmental funds reported an ending fund balance of \$658,321. The amount of \$658,321 is available for spending at the ESD's discretion (unassigned fund balance).
- As of September 30, 2021, the unassigned fund balance for the General Fund of \$658,321 represents approximately 215% of total general fund expenditures for the fiscal year.
- The ESD had no long-term debt outstanding at close of the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the ESD's basic financial statements. The ESD's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the ESD through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the ESD.

Basic Financial Statements

The first two statements in the basic financial statements are the Government-Wide Financial Statements. They provide both short and long-term information about the ESD's financial status.

The next two statements are Fund Financial Statements. These statements provide more detail than the government-wide statements. The Fund Financial Statements consist of one governmental fund, the general fund.

The next section of the basic financial statements are the notes to the financial statements. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the ESD's financial position, similar in form to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the ESD's financial position as a whole.

The Statement of Net Position presents information on all of the ESD's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the ESD is improving or deteriorating. The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. In order to assess the overall health or financial condition of the ESD, other non-financial factors should also be taken into consideration. These include changes in the ESD's property tax base.

The Statement of Activities presents information showing how the ESD's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. 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, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, if material in value).

The government-wide statements present one category, the governmental activities. The governmental activities include most of the ESD's basic services such as administrative services, contractual services, and professional fees. Property taxes finance these activities.

Fund Financial Statements

The fund financial statements provide a more detailed look at the ESD's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The ESD, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the ESD's budget ordinance. The ESD's fund falls into the category of a governmental fund.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the ESD's basic services are accounted for in the governmental funds. This fund focuses on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps them determine if there are financial resources available to finance the ESD's programs.

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 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 ESD adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the residents of the ESD, the management of the ESD, and the decisions of the ESD Board about which services to provide and how to pay for them. It also authorizes the ESD to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the ESD complied with the budget ordinance and whether or not the ESD succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) original budget; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Notes to the Financial Statements

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

Net Position

	2021	2020
Current and other assets	\$ 663,930	\$ 522,287
Capital assets	<u>275,039</u>	<u>213,208</u>
Total assets	<u>938,969</u>	<u>735,495</u>
Accounts payable	<u>33</u>	<u>33</u>
Total liabilities	<u>33</u>	<u>33</u>
Net position		
Net investment in capital assets	275,039	213,208
Unrestricted	<u>663,897</u>	<u>522,254</u>
Total net position	<u>\$ 938,936</u>	<u>\$ 735,462</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the ESD exceeded liabilities by \$938,936, net position, as of September 30, 2021. ESD's net position increased by \$203,474, or 22%, for the fiscal year ended September 30, 2021.

Net Investment in Capital Assets

A large portion of the ESD's net position is \$275,039, or 29%, which reflects the ESD's investment in capital assets, less any related debt still outstanding that was issued to acquire those items. The ESD uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the ESD's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay the debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

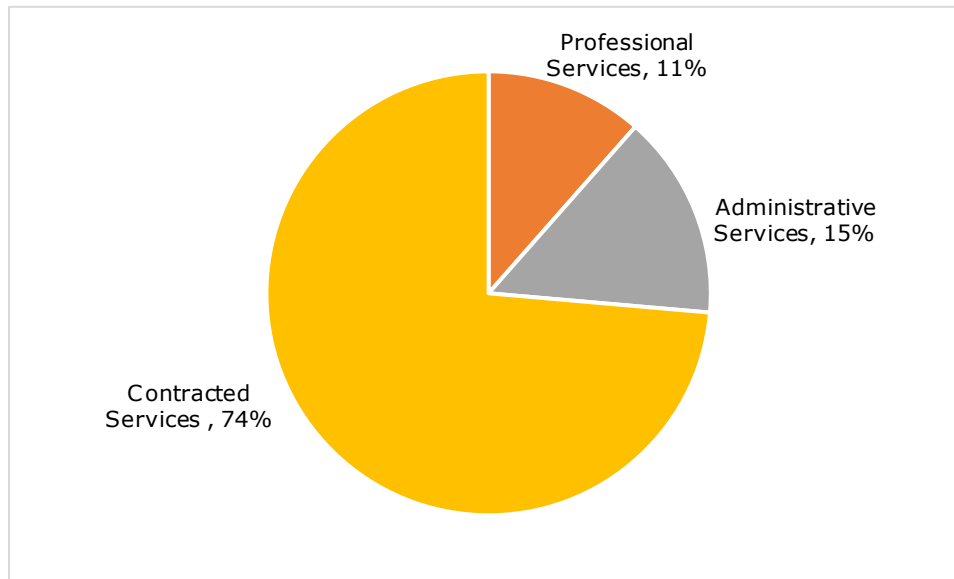
Unrestricted Net Position

Unrestricted net position of \$663,897, or 71%, is available to fund ESD programs to citizens and creditors.

Changes in Net Position

	2021	2020
Revenues:		
General Revenues:		
Property taxes	\$ 445,004	\$ 392,511
Investment earnings	<u>2,132</u>	<u>5,973</u>
Total Revenues	<u>447,136</u>	<u>398,484</u>
Expenses:		
Program Expenses:		
Contracted services	179,367	173,302
Professional services	27,982	26,296
Administrative services	<u>36,313</u>	<u>59,551</u>
Total Expenses	<u>243,662</u>	<u>259,149</u>
Increase (decrease) in net position	203,474	139,335
Net position - Beginning	<u>735,462</u>	<u>596,127</u>
Net position - Ending	<u>\$ 938,936</u>	<u>\$ 735,462</u>

Governmental Activities – The Governmental activities increased the ESD’s net position by \$203,474 during the fiscal year ended September 30, 2021. This occurred as the result of the ESD earning more revenue than its expenses for the year. The ESD’s expenses for the year consisted of the following functions:



FINANCIAL ANALYSIS OF THE ESD’S FUNDS

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

Governmental Funds – The focus of the ESD’s governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the ESD’s financing requirements. Specifically, unassigned fund balance can be a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The General Fund is the only fund of the ESD and reported an ending fund balance of \$658,321 which is a 82% increase in comparison with the prior year’s total ending fund balance. The components of total fund balance are as follows:

- Unassigned fund balance of \$658,321, or 100%, of total fund balance represents residual available fund balance that is not restricted, committed, or assigned by management or otherwise.

General Fund Budgetary Highlights – Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The ESD did not amend its budget during the fiscal year.

Capital Assets – The ESD’s investment in capital assets for its governmental activities as of September 30, 2021 totals \$275,039 (net of accumulated depreciation). This investment in capital assets consists of equipment and buildings.

**Capital Assets
As of September 30, 2021**

	2021	2020
Land & Improvements	\$ 75,325	\$ -
Buildings	51,162	51,162
Machinery & Equipment	244,682	244,682
Accumulated Depreciation	(96,130)	(82,636)
Total	<u>\$ 275,039</u>	<u>\$ 213,208</u>

During the year ended September 30, 2021, the ESD purchased two parcels of land and related improvements for a total of \$75,325.

Long-Term Debt – As of September 30, 2021, the ESD had no long-term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 2022 budget reflects a property tax rate of \$0.079800 per \$100 valuation, which is an increase of \$0.0022 from the fiscal year 2021 tax rate.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the ESD's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Van Zandt County Emergency Services District No. 3, P.O. Box 246, Canton, Texas 75103.

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BASIC FINANCIAL STATEMENTS

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VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

STATEMENT OF NET POSITION

SEPTEMBER 30, 2021

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 655,770
Receivables (net of allowance for collectibles)	8,160
Capital assets (net of accumulated depreciation)	<u>275,039</u>
Total Assets	<u>938,969</u>
LIABILITIES	
Accounts Payable	<u>33</u>
Total Liabilities	<u>33</u>
NET POSITION	
Net investment in capital assets	275,039
Unrestricted	<u>663,897</u>
Total Net Position	<u>\$ 938,936</u>

The accompanying notes are an integral part of this statement.

VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Function/Program Activities	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position <u>Primary Government</u> Governmental Activities
Primary Government					
Governmental Activities:					
Public safety:					
Contracted services	\$ 179,367	\$ -	\$ -	\$ -	\$(179,367)
Professional services	27,982	-	-	-	(27,982)
Administrative services	<u>36,313</u>	-	-	-	<u>(36,313)</u>
Total Governmental Activities	\$ <u>243,662</u>	\$ -	\$ -	\$ -	(243,662)
General Revenues:					
					445,004
					<u>2,132</u>
					<u>447,136</u>
					203,474
					<u>735,462</u>
					<u>\$ 938,936</u>

The accompanying notes are an integral part of this statement.

VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

BALANCE SHEET - GOVERNMENTAL FUND

SEPTEMBER 30, 2021

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 655,770
Receivables (net of allowances for uncollectibles)	<u>8,160</u>
Total assets	<u>663,930</u>
LIABILITIES	
Accounts Payable	<u>33</u>
Total liabilities	<u>33</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenues - property taxes	<u>5,576</u>
Total deferred inflows of resources	<u>5,576</u>
FUND BALANCE	
Unassigned	<u>658,321</u>
Total fund balance	<u>658,321</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 663,930</u>

VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2021

Total fund balance - governmental funds balance sheet	\$ 658,321
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	371,169
Accumulated depreciation is not included in the governmental fund financial statements.	(96,130)
Deferred inflows of resources are not available to pay for current period expenditures and, therefore, are deferred in funds.	<u>5,576</u>
Net position of governmental activities - statement of net position	\$ <u>938,936</u>

VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 446,132
Investment earnings	<u>2,132</u>
Total revenues	<u>448,264</u>
EXPENDITURES	
Current:	
Public safety:	
Contracted services	179,367
Professional services	27,982
Administrative services	<u>98,144</u>
Total expenditures	<u>305,493</u>
Net change in fund balance	142,771
Fund balance, beginning	<u>515,550</u>
Fund balance, ending	\$ <u><u>658,321</u></u>

VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Net change in fund balance - governmental funds	\$	142,771
Amounts reported for governmental activities in the statement of activities are different because:		
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position.		61,831
The change in property tax revenue is reported in the statement of activities, however, this change does not provide current financial resources and is there fore not reported as revenues in the funds.	(<u>1,128</u>)
Change in net position of governmental activities - statement of activities	\$	<u>203,474</u>

VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 418,651	\$ 418,651	\$ 446,132	\$ 27,481
Investment earnings	-	-	2,132	2,132
Total revenues	<u>418,651</u>	<u>418,651</u>	<u>448,264</u>	<u>29,613</u>
EXPENDITURES				
Current:				
Public safety:				
Contracted services	223,879	223,879	179,367	44,512
Professional services	20,191	20,191	27,982	(7,791)
Administrative services	114,581	114,581	98,144	16,437
Emergency fund	60,000	60,000	-	60,000
Total expenditures	<u>418,651</u>	<u>418,651</u>	<u>305,493</u>	<u>113,158</u>
Net change in fund balances	-	-	142,771	142,771
Fund balance, beginning	<u>515,550</u>	<u>515,550</u>	<u>515,550</u>	-
Fund balance, ending	<u>\$ 515,550</u>	<u>\$ 515,550</u>	<u>\$ 658,321</u>	<u>\$ 142,771</u>

The accompanying notes are an integral part of this statement.

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VAN ZANDT COUNTY EMERGENCY SERVICES DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Van Zandt County Emergency Services District No. 3 ("ESD") was created in July 2013. The ESD is governed by a five-member board which has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters.

The accounting and reporting policies of the ESD relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"). The more significant accounting policies of the ESD are described below:

A. Reporting Entity

The ESD is a financial reporting entity as defined by GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units."

A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate. The criteria for including organizations as a component unit with the ESD's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue or be sued in its own name);
- The ESD appoints a voting majority of the organization's board;
- The ESD is able to impose its will on the organization;
- The organization has the potential to impose a financial benefit/burden on the ESD; and
- There is a fiscal dependency by the organization on the ESD.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. The evaluation includes consideration of whether the financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criterion.

Based upon the application of these tests, the ESD does not have any discretely presented or blended component units nor is it a component unit of any other reporting entity.

B. Basis of Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Significantly, the ESD's statement of net position includes noncurrent assets. The ESD has no noncurrent liabilities in the current fiscal year. In addition, the government-wide statement of activities reflects depreciation expenses on the ESD's capital assets, including infrastructure.

In addition to the government-wide financial statements, the ESD has prepared fund financial statements which use the modified accrual basis of accounting and the current financial resource measurement focus for the governmental funds.

Management's Discussion and Analysis provides an analytical overview of the ESD's financial activities. In addition, a budgetary comparison schedule is presented that compares the original adopted budget and final amended General Fund budget with actual results.

The financial statements include both government-wide (based on the ESD as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (i.e., administrative services, emergency services, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with specific functions or programs. Taxes and other items not included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program revenues.

The fund financial statements are provided for the governmental funds. ESD operates with a single fund – General Fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses for the determination of major funds).

The net cost (by function) is normally covered by general revenue (property taxes and interest income).

The government-wide focus is more on the sustainability of the ESD as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on major individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

The ESD reports one major governmental fund: General Fund. The General Fund is used to account for all activities of the government and the collection of ad valorem taxes.

C. Measurement Focus

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Ad valorem taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are recorded as revenues when received in cash, as the resulting receivable is not measurable.

When both restricted and unrestricted resources are available for use it is the ESD's policy to use restricted first, then unrestricted resources as they are needed.

D. Financial Statement Amounts

1. *Cash and Cash Equivalents*

The ESD's cash and cash equivalents consist of cash on hand, demand deposits, and certificates of deposit. It is the policy of the ESD to classify certificates of deposit, and any other investments, as cash equivalents when the original maturity of the instrument is 90 days or less from the date of issuance.

2. *Prepaid Items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased. The ESD had no prepaid items as of September 30, 2021.

3. *Receivables*

Property tax receivables are shown net of allowance for uncollectible accounts.

The ESD believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation.

4. *Capital Assets*

Capital assets, which includes equipment and buildings purchased or acquired, are reported in the government-wide financial statements. The ESD defines capital assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with the equivalent service potential at the acquisition date. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	30-40 years
Machinery and Equipment	10-20 years

5. *Deferred Inflows/Outflows of Resources*

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. The 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 (expenses/expenditures) until then. The ESD does not have any item that qualifies 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 ESD has one item that qualifies for reporting in this category. The item, *unavailable revenue*, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resource in the period that the amount becomes available.

6. Property Taxes

Property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the Van Zandt County Emergency District No. 3. Assessed value represents the appraisal value less applicable exemptions authorized by the board. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years, however, the ESD may, at its own expense, require annual reviews of appraisal values. The ESD may challenge appraised values established by the appraisal district through appeals, and, if necessary, take legal action. Under this legislation, the ESD continues to set tax rates on ESD property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified votes of the ESD may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas limit the ad valorem tax rate of emergency services districts to \$.10 per \$100 assessed value. The ESD's tax rate for this reported fiscal year complied at a rate of \$0.0770.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. The ESD had no items that meet the definition of long-term liabilities as of September 30, 2021.

8. Fund Balance

In the fund financial statements, the General Fund reports fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the ESD is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* – includes amounts not in spendable form, such as inventory, or amounts required to be maintained intact legally or contractually (principal endowment).
- *Restricted fund balance* – includes amounts constrained for a specific purpose by external parties (e.g. Debt Service, Capital Projects, State and Federal Grant Funds).
- *Committed fund balance* – includes amounts constrained for a specific purpose by the board using its highest level of decision-making authority (e.g., Major Maintenance, Capital Replacement Reserve, Land, etc.) Commitments may be changed or lifted only by the board taking the same formal action that originally imposed the constraint.
- *Assigned fund balance* – includes general fund amounts constrained for a specific purpose by the board. Assignments of fund balance are much less formal than commitments.
- *Unassigned fund balance* – is the residual classification for the general fund. Unassigned amounts are technically available for any purpose.

9. Net Position Flow Assumption

Sometimes the ESD will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the ESD's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund Balance Flow Assumption

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

11. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the financial statements in order to provide an understanding of budgeted to actual results.

12. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

13. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

The ESD adopts a budget of governmental fund types on the modified accrual basis of accounting. The ESD is required to present the adopted and final amended budgeted revenues and expenditures. The ESD compares the final amended budget to actual revenues and expenditures. The legal level of budgetary control (the level at which expenditures may not exceed appropriations) is the fund level.

III. DEPOSITS

Cash Deposits

At September 30, 2021, the carrying amount of the ESD's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$655,770.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in possession of another party. The Public Funds Investment Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: the Public Funds Investment Act and ESD's investment policy requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less FDIC.

IV. RECEIVABLES

Receivables as of September 30, 2021, for the ESD's individual major fund, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>
Receivables - taxes	\$ 21,634
Less: allowance for uncollectibles	(13,474)
Net Total Receivables	<u>\$ 8,160</u>

V. CAPITAL ASSETS

Capital assets activity for the period ended September 30, 2021 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land & Improvements	\$ -	\$ 75,325	\$ -	75,325
Total capital assets not being depreciated	<u>-</u>	<u>75,325</u>	<u>-</u>	<u>75,325</u>
Capital assets, being depreciated:				
Buildings	51,162	-	-	51,162
Machinery & Equipment	<u>244,682</u>	<u>-</u>	<u>-</u>	<u>244,682</u>
Total capital assets being depreciated	<u>295,844</u>	<u>-</u>	<u>-</u>	<u>295,844</u>
Less accumulated depreciation for:				
Buildings	(5,116)	(1,279)	-	(6,395)
Machinery & Equipment	<u>(77,520)</u>	<u>(12,215)</u>	<u>-</u>	<u>(89,735)</u>
Total accumulated depreciation	<u>(82,636)</u>	<u>(13,494)</u>	<u>-</u>	<u>(96,130)</u>
Total capital assets being depreciated, net	<u>213,208</u>	<u>(13,494)</u>	<u>-</u>	<u>199,714</u>
Governmental activities capital assets, net	<u>\$ 213,208</u>	<u>\$ 61,831</u>	<u>\$ -</u>	<u>\$ 275,039</u>
Total depreciation - governmental activities				
Administrative services		<u>\$ (13,494)</u>		

VI. INSURANCE COVERAGE

In accordance with state statute, the ESD was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through VFIS of Texas, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$3,000,000 and for aggregate loss.

VII. CONTINGENCIES

The ESD has contingent liabilities with respect to pending claims and litigation that, in the opinion of the ESD, are not material and the possibility of an unfavorable outcome is remote. The ultimate effect, if any, that such litigation may have on the future financial position of the ESD, is not presently determinable.

VIII. CONTRACTED SERVICES

The ESD contracts with the South Van Zandt Volunteer Fire Department, Inc., to provide a fire department and ambulance service to the ESD No. 3, and certain areas prescribed by the County Commissioners. Such expenditures paid for the fiscal year ended September 30, 2021 were \$179,367.

IX. NEW ACCOUNTING STANDARDS

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the ESD include the following:

Statement No. 87, *Leases* – This Statement will improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under the Statement a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resource, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the ESD in fiscal year 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements* – This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This Statement will become effective for the ESD in fiscal year 2023.

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COMPLIANCE SECTION

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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

Board of Commissioners
Van Zandt County Emergency Services District No. 3
Canton, Texas

We have audited, 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, the financial statements of the governmental activities and the major fund of Van Zandt County Emergency Services District No. 3, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise Van Zandt County Emergency Services District No. 3's basic financial statements, and have issued our report thereon dated August 12, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Van Zandt County Emergency Services District No. 3'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 Van Zandt County Emergency Services District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Van Zandt County Emergency Services District No. 3's internal control.

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

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

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Van Zandt County Emergency Services District No. 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
August 12, 2022