

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

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## ***FINANCIAL SECTION***



## EDGIN, PARKMAN, FLEMING & FLEMING, PC

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### **Independent Auditor's Report**

Board of Directors  
Palo Pinto County Emergency Services District No. 1

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and major fund of Palo Pinto County Emergency Services District No. 1 (District), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the auditor's judgment, including the assessment of the risks of the 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the accounting principles used and the reasonableness of significant 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 opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Palo Pinto County Emergency Services District No. 1 as of December 31, 2018, and respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule identified as Required Supplementary Information in the table of contents 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2019, on our consideration of Palo Pinto County Emergency Services District No. 1'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Palo Pinto County Emergency Services District No. 1's internal control over financial reporting and compliance.

Respectfully submitted,

*Edgin, Parkman, Fleming & Fleming, PC*

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas  
May 3, 2019

## ***BASIC FINANCIAL STATEMENTS***

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 1,240,570
Property taxes receivable, net	560,403
Due from other governments	259,907
Prepaid expenses	167,919
Spare parts inventory	7,362
Capital assets, net	82,639
Total assets	<u>2,318,800</u>
<b>Liabilities</b>	
Accounts payable	<u>8,179</u>
<b>Net position</b>	
Net investment in capital assets	82,639
Unrestricted	<u>2,227,982</u>
Total net position	<u><u>\$ 2,310,621</u></u>

The accompanying notes are an integral part of these financial statements.

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

		Program Revenues		Net Expense and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
	Expenses			
<u>Functions/Programs</u>				
Primary government:				
General governmental activities:				
Emergency services	\$ 1,335,585	\$ -	\$ 634,075	\$ (701,510)
General revenues:				
Property taxes				910,414
Sales taxes				509,420
Interest income				6,386
Total general revenues				1,426,220
Change in net position				724,710
Net position, beginning				1,585,911
Net position, ending				\$ 2,310,621

The accompanying notes are an integral part of these financial statements.



**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**BALANCE SHEET - GOVERNMENTAL FUND  
DECEMBER 31, 2018**

	General Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 1,240,570
Property taxes receivable, net	560,403
Due from other governments	259,907
Prepaid expenditures	167,919
Spare parts inventory	7,362
Total assets	<u>\$ 2,236,161</u>
<b>Liabilities</b>	
Accounts payable	<u>\$ 8,179</u>
<b>Deferred inflows of resources</b>	
Unavailable property taxes	<u>560,403</u>
<b>Fund balance</b>	
Nonspendable:	
Prepaid expenditures	167,919
Spare parts inventory	7,362
Unassigned	1,492,298
Total fund balance	<u>1,667,579</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 2,236,161</u>

The accompanying notes are an integral part of these financial statements.

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Total fund balance - governmental fund (Exhibit A-3)	\$ 1,667,579
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Amounts reported for *governmental activities* in the Statement of Net Position (Exhibit A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:

Gross capital assets	\$ 178,237	
Related accumulated depreciation	95,598	82,639

Property tax receivables are not available to pay for current period expenditures and, therefore, deferred in the funds.

560,403

Total net position - governmental activities (Exhibit A-1)	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ 2,310,621</div>
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The accompanying notes are an integral part of these financial statements.

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 883,590
Sales taxes	509,420
County EMS funding	634,075
Interest income	<u>6,386</u>
Total revenues	<u>2,033,471</u>
Expenditures:	
Appraisal fees	18,379
Audit fees	6,425
Distributions to volunteer fire departments	440,935
Distributions to EMS entities	54,000
Reimbursements to and payments on-behalf of VFD/EMS entities	28,137
Contracted ambulance and EMS services	627,250
Insurance	25,288
Tax collector fees	8,718
Palo Pinto County administrative assistant services	29,253
Repairs and maintenance	21,527
Capital asset expenditures	38,255
Rent	6,891
Utilities	8,484
Legal fees	17,922
Board training and travel	8,089
Miscellaneous	<u>4,014</u>
Total expenditures	<u>1,343,567</u>
Net change in fund balance	689,904
Fund balance, beginning	<u>977,675</u>
Fund balance, ending	<u><u>\$ 1,667,579</u></u>

The accompanying notes are an integral part of these financial statements.

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**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 DECEMBER 31, 2018**

Net change in fund balance - governmental fund (Exhibit A-5) \$ 689,904

Amounts reported for *governmental activities* in the Statement of Activities (Exhibit A-2) are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. The net difference between the two is as follows:

Capital outlay during the year	\$	38,255		
Depreciation expense for the year		30,273		7,982

Property tax receivables will not be collected for several months after the District's fiscal year ends; therefore, they are not considered 'available' resources and are deferred in the governmental funds. Unavailable property taxes increased by this amount this year.

26,824

Change in net position of governmental activities (Exhibit A-2) \$ 724,710

The accompanying notes are an integral part of these financial statements.

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Palo Pinto County Emergency Services District No. 1 (District) was created pursuant to Chapter 794 of the Health and Safety Code of Vernon's Ann. Civil Statutes (Health and Safety Code) under the name of Palo Pinto County Rural Fire District. Effective September 1, 2003, Chapter 794 was superseded by Chapter 775 of the Health and Safety Code, thus necessitating a change in the name of the District to the Palo Pinto County Emergency Services District No. 1.

The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. GAAP for local governments includes those principles prescribed by the Governmental Accounting Standards Board (GASB), which includes all statements and interpretations of the National Council on Governmental Accounting (NCGA) unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governments. The following is a summary of the more significant policies and practices by the District.

#### **A. Reporting Entity**

The District is a political subdivision of the state created to perform the functions of the District. The District operates on ad valorem taxes levied and distributions from Palo Pinto County. The District distributes funds equally to eleven volunteer departments and several emergency medical service entities to make fire-fighting facilities, fire extinguishment services and emergency medical and rescue services available to the District.

The District is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since board members have decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. The board members are appointed by the Commissioners' Court of Palo Pinto County.

The reporting entity of the District includes funds under the authority of the Board of Directors of the District. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the ability of the Board of Directors to exercise oversight responsibility. The most significant manifestation of this ability is financial inter-dependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Another criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. There are no related organizations that are required to be included within the reporting entity of the District. Additionally, the District is not a component unit of another government.

#### **B. Basis of Presentation**

##### *Government-wide financial statements*

The basic financial statements include both government-wide (based on the District 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 non-fiduciary activities of the District.

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2018**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include fees and charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues are presented as general revenues.

#### *Fund financial statements*

Separate fund-based financial statements are provided for the governmental fund. The fund financial statements provide information about the District's fund. The General Fund is the District's only operating fund and accounts for all financial resources of the District. All general tax revenues and other receipts are accounted for in this fund. From the fund are paid general operating costs and fixed charges. This is a budgeted fund and any unassigned fund balance is considered resources available for current operations.

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

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

Government fund-level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

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

GASB Statement No. 34 eliminates the presentation of account groups but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Position.

Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2018**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

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

#### **D. Budgetary Accounting**

The District maintains control over operating expenditures by the establishment of an annual operating budget. The budget is prepared on a basis consistent with GAAP and is formally approved along with any revisions by the District's Board of Directors. The budget comparison schedule is presented as required supplementary information.

#### **E. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. For the year ended December 31, 2018, the District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, property taxes receivable. Property taxes receivable (\$560,403) is unavailable and therefore cannot be recognized as revenue in the governmental funds until received.

#### **F. Fund Balances**

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid expenditures) or legally required to remain intact (such as notes receivable or principal of a permanent fund). The District had \$167,919 of nonspendable fund balance for prepaid expenditures and \$7,362 of nonspendable fund balance for inventory at December 31, 2018.

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation. The District had no restricted fund balance at December 31, 2018.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the Board of Directors. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions or enabling legislation. The District had no committed fund balance at December 31, 2018.

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2018**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the General Fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself. The District had no assigned fund balance at December 31, 2018.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds.

#### **G. Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

#### **H. Prepaid Items**

Certain payments to vendors such as rent and insurance reflect costs applicable to future periods and are recorded as prepaid items.

#### **I. Spare Parts Inventory**

The District purchased and maintains communication equipment within Palo Pinto County. As a result, the District maintains spare parts for repairs and maintenance. The spare parts are recorded at cost as spare parts inventory when purchased and then moved to repairs and maintenance when used to replace broken communication equipment parts.



# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2018**

### *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)*

#### **J. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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>
Communication Equipment	5 Years
Vehicles	7 Years

#### **K. Risk Management**

The District is exposed to various risks of loss related to torts, errors and omissions, and injuries to volunteer fire fighters. The District purchased commercial insurance for liability through an independent third party carrier. Prepaid portions of insurance premiums are capitalized when paid and fund balance reserved (nonspendable for prepaids) for the unexpired portion at year end.

#### **L. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Accordingly, actual results could differ from those estimates.

### *NOTE 2 - COMPLIANCE AND ACCOUNTABILITY*

#### **A. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions are reported below:

For the year ended December 31, 2018, the District had no violations of finance-related legal or contractual provisions.

#### **B. Deficit Fund Balance or Net Position of Individual Funds**

The District had no funds with deficit fund balances or net position as of December 31, 2018.

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2018**

### **NOTE 3 - DEPOSITS**

The District's funds are required to be deposited under the terms of a written depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At December 31, 2018, the total amount of the District's demand and time deposits per the general ledger was \$1,240,570, and the total amount per the District's December 31, 2018 bank statement was \$1,244,523.

#### Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District's deposits were adequately secured by FDIC coverage and pledged securities.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2018**

### **NOTE 4 - PROPERTY TAXES**

Property taxes attach as an enforceable lien on property as of January 1 of the prior year. Taxes are levied on October 1, and become delinquent after January 31. The District is permitted by the Section 48-e, Article III, Texas Constitution, to levy taxes up to \$.10 per \$100 of assessed valuation for general services. However, the District must receive approval from the voters to go above the rate with which the District was created (\$.03000 per \$100 valuation). The tax rate to finance general governmental services for the year ended December 31, 2018 was \$.03000 per \$100 valuation.

Property tax receivables as of December 31, 2018 consist of the following:

Gross receivables	\$578,883
Less: Allowance for uncollectibles	( 18,480)
Net receivables	<u>\$560,403</u>
Amount expected to be collected within one year	<u>\$500,000</u>

Allowances for uncollectible receivables are based upon historical experience in collecting those receivables. Uncollectible amounts are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

### **NOTE 5 - DUE FROM OTHER GOVERNMENTS**

Other governments collect taxes on behalf of the District and remit the funds to the District throughout the year. At December 31, 2018, the District was owed \$259,907 from other governments for unremitted tax collections as follows:

#### Property Taxes

The Palo Pinto County Tax Assessor/Collector collects property taxes on behalf of the District and remits the collections to the District periodically. The tax assessor/collector had \$146,921 of collections due to the District at December 31, 2018. The District expects the entire amount to be collected within one year.

#### Sales Taxes

The Texas Comptroller of Public Accounts collects sales taxes on behalf of the District and remits the collections to the District two months after the month of collection. The Texas Comptroller of Public Accounts had \$112,986 of collections due to the District at December 31, 2018. The District expects the entire amount to be collected within one year.

# PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2018

### NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

Governmental activities:	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018
Capital assets being depreciated:				
Communication equipment	\$139,982	\$ -	\$ -	\$139,982
Vehicle	<u>-</u>	<u>38,255</u>	<u>-</u>	<u>38,255</u>
Total capital assets being depreciated	<u>139,982</u>	<u>38,255</u>	<u>-</u>	<u>178,237</u>
Less accumulated depreciation	<u>65,325</u>	<u>30,273</u>	<u>-</u>	<u>95,598</u>
Governmental activities capital assets, net	<u>\$ 74,657</u>	<u>\$ 7,982</u>	<u>\$ -</u>	<u>\$ 82,639</u>

### NOTE 7 - COMMITMENTS AND CONTINGENCIES

#### Operating Lease Commitments

The District leases tower space for antennas that are part of a communication system for the District's service area. The future minimum payments under these leases are as follows:

Year Ending <u>December 31,</u>	
2019	\$ 7,235
2020	<u>1,216</u>
Total	<u>\$ 8,451</u>

The operating lease rent paid during the year ended December 31, 2018 was \$6,891.

#### Emergency Medical Services Agreement Commitment

The District entered into an agreement on October 25, 2017 with Sacred Cross EMS, Inc., an emergency medical services provider, to provide ambulance and emergency medical services for Palo Pinto County. The agreement is a month-to-month agreement with a fee of \$39,000 per month due by the 1st of the month or the first business day of the month if the 1st is on a weekend or holiday with the first payment due November 1, 2017.

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2018**

### **NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONT'D.)**

#### Emergency Medical Services Agreement Commitment (Cont'd.)

In January 2018, the District and Sacred Cross EMS, Inc. replaced the above agreement with a long-term agreement. The month-to-month agreement terminated February 14, 2018 and was replaced by the long-term agreement on February 15, 2018. The District paid a prorated amount of \$19,500 for the February services under the month-to-month agreement. The term of the long-term agreement is for three years and shall automatically renew for up to three one year renewals or until written notice of the intent not to renew is delivered by either party to the other party no less than ninety days prior to the end of the then current three or one-year term. The agreement requires quarterly installments of \$162,500, on or by the first day, or first business day if the 1st is a weekend or holiday, of each quarter for the duration of the agreement. A prorated payment of \$81,250 was paid by the District at the execution of the agreement since the payment was not synchronized with the first calendar quarter. Subsequent payment due dates are synchronized by calendar quarter. If the District fails to make a payment by the due date, the District will incur a late fee penalty.

In 2019, the District and Sacred Cross EMS, Inc. amended the contract to increase the quarterly installment amount from \$162,500 to \$206,250. The amendment became effective February 15, 2019.

#### Litigation

The District is not involved in any pending or threatened litigation, claims or assessments at December 31, 2018. However, in March 2018, the Texas Supreme Court ruled in the case of J.W. Power Compressor vs. Galveston Central Appraisal District concerning the taxing of compressors. The ruling ordered Galveston Central Appraisal District to return all ad valorem taxes paid by the J.W. Power Compressor from 2011 through 2016. Since J.W. Power Compressor and other companies have compressors in Palo Pinto County and the companies paid ad valorem taxes in 2011 through 2016, the District expects to have to refund the taxes and interest on the taxes to the companies. The Palo Pinto County Tax Assessor/Collector estimates that the repayment amount will be approximately \$12,000 for taxes and \$3,000 for interest for a total of \$15,000.

***REQUIRED SUPPLEMENTARY INFORMATION***

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 925,000	\$ 868,300	\$ 883,590	\$ 15,290
Sales taxes	-	145,800	509,420	363,620
County EMS funding	116,000	1,414,475	634,075	(780,400)
Interest income	2,500	2,750	6,386	3,636
Total revenues	1,043,500	2,431,325	2,033,471	(397,854)
Expenditures:				
Appraisal fees	20,000	20,000	18,379	1,621
Audit fees	7,000	7,000	6,425	575
Distributions to volunteer fire departments	552,200	552,200	440,935	111,265
Distributions to EMS entities	168,800	272,800	54,000	218,800
Reimbursements to and payments on-behalf of VFD/EMS entities	-	43,678	28,137	15,541
Contracted ambulance and EMS services	-	1,279,502	627,250	652,252
Insurance	28,000	28,595	25,288	3,307
Tax collector fees	13,500	13,500	8,718	4,782
Palo Pinto County administrative assistant services	33,000	33,000	29,253	3,747
Repairs and maintenance	32,400	36,400	21,527	14,873
Capital asset expenditures	-	40,000	38,255	1,745
Rent	11,150	11,150	6,891	4,259
Utilities	1,000	8,484	8,484	-
Legal fees	20,000	30,000	17,922	12,078
Board training and travel	15,800	15,800	8,089	7,711
Miscellaneous	7,275	7,775	4,014	3,761
Contingency reserve	133,375	31,441	-	31,441
Total expenditures	1,043,500	2,431,325	1,343,567	1,087,758
Net change in fund balance	-	-	689,904	689,904
Fund balance, beginning	977,675	977,675	977,675	-
Fund balance, ending	\$ 977,675	\$ 977,675	\$ 1,667,579	\$ 689,904

The accompanying notes are an integral part of these financial statements.

# **PALO PINTO COUNTY EMERGENCY SERVICES DISTRICT NO. 1**

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED DECEMBER 31, 2018**

### **A. BUDGETARY INFORMATION**

Annual budgets are adopted on the GAAP basis of accounting for the General Fund. All annual appropriations lapse at fiscal year end.

The Treasurer of the Board of Directors is the Budget Officer of the District and has the responsibility of preparing the District's budget. Under the District's budgeting procedures, each volunteer fire department and EMS entity submits a budget request to the Treasurer. In July, before the District sets the tax rate for a fiscal year in August, a proposed budget is presented to the Board of Directors. A public hearing is then held and the Board of Directors takes action on the proposed budget. Before determining the final budget, the Board of Directors may increase or decrease the budgeted amounts. Amounts finally budgeted may not exceed the estimate of revenues and available fund balance.

Once the budget has been adopted by the Board of Directors, the Treasurer is responsible for monitoring the expenditures of the various departments of the District to prevent expenditures from exceeding budgeted appropriations and for keeping members of the Board of Directors advised of the conditions of the various funds and accounts.

Any transfers of appropriations are first approved by the Board of Directors. No amendments may be made without the Board of Directors' approval to the total budget or budget line. Thus, the legal level of budgetary control is at the budget line. No supplemental appropriations were required during the year.



## ***INTERNAL CONTROL AND COMPLIANCE***



## EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

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MICHAEL D. EDGIN, CPA  
DAVID L. PARKMAN, CPA  
A. PAUL FLEMING, CPA

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 Directors  
Palo Pinto County Emergency Services District No. 1

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Palo Pinto County Emergency Services District No. 1 (District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 3, 2019.

### **Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Finding 2018-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

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

## **Palo Pinto County Emergency Services District No. 1's Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*Edgin, Parkman, Fleming & Fleming, PC*

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas  
May 3, 2019

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**A. Summary of Auditor's Results**

**1. Financial Statements**

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>  X  </u> Yes	<u>      </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u>      </u> Yes	<u>  X  </u> None reported
Noncompliance material to the financial statements noted?	<u>      </u> Yes	<u>  X  </u> No

**B. Financial Statement Findings**

*Finding 2018-001 – Material Weakness over Financial Reporting – Material Audit Adjustments*

Criteria

The District's internal control over financial reporting should ensure all financial statement amounts are adjusted to be in accordance with generally accepted accounting principles (GAAP).

Condition

During the audit, we proposed several audit adjustments. One of the adjustments was individually material to the District's financial statements. In addition, the total of the adjustments resulted in a material adjustment to both assets and fund balance/net position. The total of the adjustments increased assets as reported by management by \$160,006 and fund balance/net position by \$187,956. The main reason for the understatement of assets and equity was the recording of the \$162,500 prepayment of the first quarter 2019 EMS services to fund balance – nonspendable for prepaid expenditures instead of to the prepaid expenditures asset account.

Cause

The District failed to identify all the adjustments needed during the year-end close process to adjust the general ledger balances to be in accordance with GAAP.

Effect

Audit adjustments that were material in total were required for the financial statement amounts to be in accordance with GAAP.

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND RESPONSES (CONT'D.)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Recommendation

We recommend that the District perform all necessary reconciliations of general ledger balances to supporting records during the year and especially during the year-end close process to ensure that all balances are adjusted as necessary to be in agreement with the supporting records and recorded in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Action

Please refer to the Corrective Action Plan prepared by the District's management.

**PALO PINTO COUNTY  
EMERGENCY SERVICES DISTRICT NO. 1**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

There were no findings in the prior year.

## **Palo Pinto Emergency Services District No. 1**

### **CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2018**

#### *Finding 2018-001 – Material Weakness over Financial Reporting – Material Audit Adjustments*

The District will perform all necessary reconciliations of general ledger balances to supporting records during the year and especially during the year-end close process to ensure that all balances are adjusted as necessary to be in agreement with the supporting records and recorded in accordance with generally accepted accounting principles (GAAP).

William Lynn Reasoner, Board President, is the official responsible for implementing this corrective action.