

**BRAZOS COUNTY EMERGENCY SERVICES  
DISTRICT NO. 4**

**INDEPENDENT AUDITORS' REPORT**

**AND**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2020**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Brazos County Emergency Services District No. 4

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information Brazos County Emergency Services District No. 4 as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

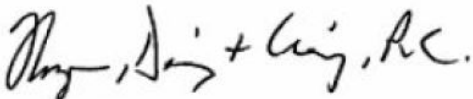
## **Opinion**

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 aggregate remaining fund information of the District, as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-4 and page 7 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.



**THOMPSON, DERRIG & CRAIG, PC**

July 6, 2021

**BRAZOS EMERGENCY SERVICES DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2020**

**DISTRICT PROFILE**

Brazos County Emergency Services District No. 4 (the District) was created after a public election held in 1987 under the provision of Section 48-d of Article III of the Constitution of Texas and the Texas Safety and Health Code, Chapter 794. The District was established to provide fire protection services to residents of the District that covers approximately 120 square miles of rural northwest Brazos County including the communities of Brushy, Smetana and Benchley.

Five persons are appointed by the County Judge and Commissioners Court as Emergency Service District Commissioners District No.4 for two-year terms with a three- and two-person rotation. They function as a board with regularly scheduled meetings every fourth Thursday of the month as stated by an agenda posted at the county courthouse. The District maintains PO Box 7102, Bryan, Texas 77805 as a working address.

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2020. Please read it in conjunction with the District's financial statements, which begin on page 5.

**FINANCIAL HIGHLIGHTS**

The District operates two bank accounts, a checking account and a money market account, and has two sources of income, namely property taxes and interest earned. In the current year, the district had additional income attributed to a payment from the City of Bryan in relation to land annexation.

The major expenses of the District are reimbursements to Volunteer Fire Department (VFD) #4 and payments on loans. The District had seven outstanding loans during fiscal 2020. During the current year, a loan from 2010 was paid off and another loan was acquired for a new truck. In addition, the District hired a fire chief during the fiscal year 2020.

The Brazos County Tax Assessor Office computes the tax information and notifies District No.4 on the legal requirements. District No. 4 under current law is limited to a maximum tax rate of \$0.08 per hundred dollars of taxable value. The commissioners set the effective tax rate at \$0.047359 for 2019 (for the year ended September 30, 2020).

**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 1  
MANAGEMENT DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2020**

SUMMARIZED COMPARATIVE FINANCIAL INFORMATION

	2020	(unaudited) 2019
Cash	\$ 130,330	\$ 358,651
Receivables	42,299	9,890
Prepaid expenses	53,012	-
Fixed assets, net	1,308,711	1,423,266
Total Assets	<u>\$ 1,534,352</u>	<u>\$ 1,791,807</u>
Current liabilities	\$ 54,531	\$ 157,998
Lease payable	772,766	770,099
Long-term debt (net of current)	363,443	324,906
Net position:		
Restricted	33,973	-
Unrestricted	401,032	538,804
Total net position	<u>435,005</u>	<u>538,804</u>
Total Liabilities & Net Position	<u>\$ 1,625,745</u>	<u>\$ 1,791,807</u>
REVENUE		
Tax revenue	\$ 519,554	\$ 500,474
Annexation settlement	33,973	-
Interest income and other income	273	213
Total Revenue	<u>553,800</u>	<u>500,687</u>
EXPENSES		
Appraisal district fee	4,919	4,290
Administrative expenses	68,557	230,816
Debt service: interest expense	36,250	30,037
Depreciation expense	224,295	185,241
Fire department operating expenses	269,587	188,000
Payroll	53,991	9,269
Total Expenses	<u>657,599</u>	<u>647,653</u>
Excess (Deficit) of Revenues over Expenses	(103,799)	(146,966)
Net Position, Beginning of Year	538,804	685,770
Net Position, End of Year	<u>\$ 435,005</u>	<u>\$ 538,804</u>

See accompanying notes to the financial statements.

**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL BALANCE SHEET**  
**SEPTEMBER 30, 2020**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 130,330	\$ -	\$ 130,330
Receivables	42,299	-	42,299
Prepaid expenses	53,012	-	53,012
Total current assets	225,641	-	225,641
Fixed assets:			
Land	84,060	-	84,060
Buildings	611,385	-	611,385
Trucks	1,230,992	-	1,230,992
Equipment	276,970	-	276,970
Less accumulated depreciation	(670,401)	(224,295)	(894,696)
Net fixed assets	1,533,006	(224,295)	1,308,711
<b>TOTAL ASSETS</b>	<b>\$ 1,758,647</b>	<b>\$ (224,295)</b>	<b>\$ 1,534,352</b>
<b>LIABILITIES AND NET POSITION</b>			
Liabilities:			
Current liabilities:			
Current maturities of long-term debt	\$ -	\$ 54,531	\$ 54,531
Total current liabilities	-	54,531	54,531
Lease payable	772,766	(91,393)	681,373
Note payable, net of current maturities	460,983	(97,540)	363,443
Total non-current liabilities	1,233,749	(188,933)	1,044,816
<b>TOTAL LIABILITIES</b>	<b>1,233,749</b>	<b>(134,402)</b>	<b>1,099,347</b>
Net Position:			
Board restricted for debt service	33,973	-	33,973
Unrestricted	490,925	(89,893)	401,032
Total net position	524,898	(89,893)	435,005
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,758,647</b>	<b>\$ (224,295)</b>	<b>\$ 1,534,352</b>

See accompanying notes to the financial statements.

**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**STATEMENT OF ACTIVITIES**  
**AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENSES:			
Current			
Appraisal district fee	\$ 4,919	\$ -	\$ 4,919
Administrative expenses	68,557	-	68,557
Debt service:			
Principal	170,332	(170,332)	-
Interest	320	35,930	36,250
Depreciation expense	-	224,295	224,295
Fire department operating expenses	269,587	-	269,587
Payroll	53,991	-	53,991
 TOTAL EXPENSES	 567,706	 89,893	 657,599
 REVENUES			
Property taxes and penalties	519,554	-	519,554
Annexation settlement	33,973	-	33,973
Interest income and other	273	-	273
 TOTAL REVENUES	 553,800	 -	 553,800
 INCREASE (DECREASE) IN NET POSITION	 (13,906)	 (89,893)	 (103,799)
 NET POSITION - BEGINNING OF YEAR	 538,804	 -	 538,804
 NET POSITION - END OF YEAR	 \$ 524,898	 \$ (89,893)	 \$ 435,005

See accompanying notes to the financial statements.



**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 1**  
**STATEMENT OF ACTIVITES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	General Fund	Adjustments	Statement of Activities	Budget	General Fund to Budget Variance
<b>REVENUES</b>					
TOTAL REVENUES	<u>\$ 553,800</u>	<u>\$ -</u>	<u>\$ 553,800</u>	<u>\$ -</u>	<u>\$ (553,800)</u>
<b>EXPENDITURES</b>					
Appraisal district fee	\$ 4,919	\$ -	\$ 4,919	\$ -	\$ (4,919)
Administrative expenses	68,557	-	68,557	133,000	64,443
Debt service					
Principal	170,332	(170,332)	-	177,748	7,416
Interest	320	35,930	36,250	320	-
Depreciation expense	-	224,295	224,295	-	-
Fire department operating expenses	269,587	-	269,587	188,000	(81,587)
Payroll	<u>53,991</u>	<u>-</u>	<u>53,991</u>	<u>-</u>	<u>(53,991)</u>
TOTAL EXPENDITURES	<u>567,706</u>	<u>89,893</u>	<u>657,599</u>	<u>499,068</u>	<u>(68,638)</u>
REVENUES OVER (UNDER) EXPENDITURES	(13,906)	(89,893)	(103,799)	(499,068)	(485,162)
NET POSITION - BEGINNING	<u>538,804</u>	<u>-</u>	<u>538,804</u>	<u>538,804</u>	<u>-</u>
NET POSITION - END OF YEAR	<u><u>\$ 524,898</u></u>	<u><u>\$ (89,893)</u></u>	<u><u>\$ 435,005</u></u>	<u><u>\$ 39,736</u></u>	<u><u>\$ (485,162)</u></u>

See accompanying notes to the financial statements.

**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**Note 1 – Creation of District**

Brazos County Emergency Services District No. 4 (the District) was created after a public election held in 1990 under the provision of Section 48-d of Article III of the Constitution of Texas and the Texas Safety and Health Code, Chapter 775. The District was established to provide fire protection services to residents of the district.

**Note 2 – Significant Accounting Policies**

Basis of presentation

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

Reporting Entity

These financial statements present the District (a special-purpose governmental entity).

Basic Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, net assets, revenues and expenditures/expenses.

The District has only one fund, as described below:

*General fund* - The General Fund is the general operating fund of this District. This fund includes all the available operating revenues and accumulates reserves for future operating activities.

Basis of Accounting

The financial statements of the District are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Property tax revenues are recognized in the period for which levied provided they are also available. Expenditures are recognized when the related liability is incurred.

See independent auditors' report.

**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**Note 2 – Significant Accounting Policies (continued)**

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures of assets, liabilities, revenues and expenditures. Accordingly, actual results could differ from those estimates.

**Note 3 – Deposits**

At year end, the carrying amount of the District's bank deposits was \$130,330. Deposits are categorized to give an indication of the level of risk assumed at year end. Categories are as follows:

Category 1 – Insured or collateralized with securities by the District or its agency in the District's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agency in the District's name.

Category 3 – Uncollateralized.

At September 30, 2020, the District's deposits are all in Category 1.

**Note 4 – Expenditures**

The District expends funds for the purchase and maintenance of fire equipment for Brazos County Volunteer Fire Department No. 4, for the construction and maintenance of fire stations and equipment used by the department, and for debt service.

**Note 5 – Property taxes**

Property taxes are collected and remitted to the District by the Brazos County Tax Assessor Collector. Taxes are levied annually on October 1, and are due one half by November 30, and one half by June 30, or in full by January 31. Delinquent tax payments throughout the year are recognized in the year received.

During the year ended September 30, 2020, the District levied an ad valorem tax at the rate of \$0.047359 per \$100 assessed valuation, which resulted in a tax levy of \$517,705 on the taxable valuation of \$1,173,947,131 for the tax year.

See independent auditors' report.

**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**Note 6 – Fixed Assets**

Fixed assets purchased or acquired with an original individual cost of \$5,000 or more are recorded at historical cost. The District operates seven trucks, four of which were purchased through loans with Government Capital Corporation and USDA and three that are leased. The trucks are being depreciated over an estimated useful life of ten years or seven years, depending on the truck. Depreciation expense for the year ended September 30, 2020 was \$224,295. Other costs incurred for repairs and maintenance are expensed as incurred. Fixed assets are depreciated using the straight-line method over estimated useful lives ranging from seven to thirty years.

**Note 7 – Adjustments on Statements of Net Position and Activities**

The adjustments to the general fund balances consist of depreciation on fixed assets, reclassification of asset additions, and reclassification of principal payments on notes payable to the liability section of the statement of net position from the statement of activities.

**Note 8 – Notes Payable**

During the year ended September 30, 2020, the District paid off the outstanding balance of a loan obtained in 2010 for \$110,093 from Governmental Capital Corporation for a brush truck.

The following represents a summary of the notes payable remaining as of September 30, 2020.

Lender	Interest Rate	Amount	Maturity	Collateral
Government Capital Corporation	3.954%	\$ 67,160	3/30/2024	2015 Brush Truck
Government Capital Corporation	3.094%	93,067	5/22/2027	Fire Chief's Truck
USDA	3.375%	117,438	5/19/2028	All revenue
USDA	4.500%	22,702	12/12/2032	All revenue
USDA	4.250%	95,910	3/24/2035	All revenue
USDA	4.500%	21,697	3/24/2035	All revenue
Total outstanding principal		417,974		
Less amount due within one year		(54,531)		
Notes payable, less current portion		<u>\$ 363,443</u>		

Future required payments of principal and interest are as follows:

	Principal	Interest	Total
2021	\$ 54,531	\$ 15,573	\$ 70,104
2022	56,542	13,561	70,103
2023	76,371	11,474	87,845
2024	43,002	8,608	51,610
2025	44,545	7,065	51,610
Thereafter	142,983	16,651	159,634
	<u>\$ 417,974</u>	<u>\$ 72,932</u>	<u>\$ 490,906</u>

See independent auditors' report.

**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**Note 9 – Capital leases**

During fiscal year ending September 30, 2018, the District entered into a one year financing lease with a financial institution whereby they received \$946,876 to be used for the purchase of several trucks and breathing air systems. The lease automatically renewed at the end of the original lease term for nine additional one-year year periods. Depreciation expense on leased assets for the year ended September 30, 2020 was \$147,739. Leased assets at September 30, 2020 included in fixed assets are as follows:

Breathing air systems	\$	224,985
Ram 5500 Unit 10200		49,283
Fire Truck 119487-1		116,304
Fire Truck 118430-1		553,604
Less: accumulated depreciation		<u>(288,431)</u>
Net equipment	\$	<u><u>655,745</u></u>

The following is a schedule by years of future minimum payments required under the lease as of September 30, 2020:

Years ending September 30,		
2021	\$	-
2022		106,382
2023		106,320
2024		106,257
2025		106,192
Thereafter		<u>310,601</u>
Total		<u>735,752</u>
Less amount representing interest		<u>(54,379)</u>
		<u><u>\$ 681,373</u></u>

**Note 10 – City of Bryan Annexation**

During the year ended September 30, 2020, the City of Bryan issued an order removing territory from the territorial limits of the District. The City of Bryan agreed to compensate the District in the amount of \$33,973 due to the loss of assessed property value. This amount was agreed-upon during September 2020 and received by the District after the year ended September 30, 2020. Therefore, this amount is included with receivables on the Statement of Net Position and as annexation settlement on the Statement of Activities. This amount considered by the board as restricted for use of payment of debt owed.

See independent auditors' report.

**BRAZOS COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**Note 11 – Risks and Uncertainties**

The District's ongoing profitability may experience instability and estimates included in the financial statements may change due to current political and economic conditions as a result of public health concerns related to the novel coronavirus, or COVID-19. The duration and intensity of these impacts and resulting disruption to which these events affect the District's operations will depend on future developments, which are highly uncertain and cannot be predicted at this time.

**Note 12 – Subsequent Events**

Management has evaluated subsequent events through July 6, 2021, the date the financial statements were available to be issued.

See independent auditors' report.



July 6, 2021

To the Board of Commissioners  
 Brazos County Emergency Services District No. 4

We have audited the financial statements of the governmental activities of Brazos County Emergency District No. 4 (the District), for the year ended September 30, 2020 and have issued our report thereon dated July 6, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 15, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended September 30, 2020. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

*Difficulties Encountered in Performing the Audit*

We encountered some difficulty during the audit obtaining supporting documentation to create a depreciation listing and to complete expense testing. We believe this was primarily due to transitions on the board, and we do not expect this problem in the future.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Below is a summary of the material misstatements detected as a result of audit procedures and corrected by management.

Unadjusted decrease in net position:	\$(226,536)
Prepaid	52,775
Fixed assets	16,670
Payables	4,631
Loan reclass entries	240,547
Receivables	32,409
Depreciation expense	<u>(224,295)</u>
Adjusted decrease in net position	<u><u>\$(103,799)</u></u>

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 6, 2021.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

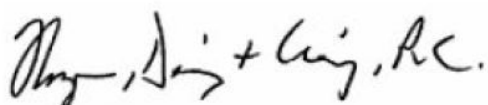
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. However, we did not audit the information and expressed no opinion on it.

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

Sincerely,



**THOMPSON, DERRIG & CRAIG, PC**





THOMPSON, DERRIG & CRAIG, P.C.  
Certified Public Accountants

July 6, 2021

To the Board of Commissioners  
Brazos County Emergency Services District No. 4

In planning and performing our audit of the financial statements of the governmental activities of Brazos County Emergency Services District No. 4 as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Brazos County Emergency Services District No. 4's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiency in internal control that we consider to be a significant deficiency.

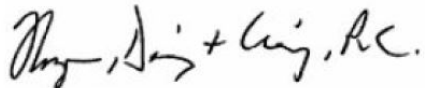
#### Financial Reporting

Management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). We noted the absence of appropriate internal controls in the following areas:

Woody Thompson, CPA | Ronnie Craig, CPA | Dillard Leverkuhn, CPA  
Lyn Kuciemba, CPA | James Larkin, CPA | AJ Taylor, CPA | R. Logan Kendrick, CPA, ABV

- The District's internal control system does not reliably and consistently produce adjustments to bring the accounting record into alignment with generally accepted accounting principles. The District does not have a system of internal controls that would enable management to conclude that the financial statements and the related disclosures are complete and presented in accordance with generally accepted accounting principles. As such, management requested us to assist in identifying adjustments to the accounting records and to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in organizations of your size and is a result of management's cost benefit decision to use our accounting expertise rather than to incur internal resource costs.

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



**THOMPSON, DERRIG & CRAIG, P.C.**