COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

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CLIENT **FOCUSED.** RELATIONSHIP **DRIVEN.**

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COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Comal County Emergency Services District No. 3
Canyon Lake, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Comal County Emergency Services District No. 3 (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of December 31, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of employer contributions – net pension liability, and schedule of changes in total other postemployment benefit liability and related ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget comparison for the debt service fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2023 on our consideration of the District'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 the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

ABIP, PC

San Antonio, Texas
May 15, 2023

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COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2022

This section of the Comal County Emergency Services District No. 3's (the District) annual financial report presents management's discussion and analysis of the District's financial performance during the year ended December 31, 2022. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities by $16,807,960 (net position) for the fiscal year reported. This is an overall increase of $2,439,588 from December 31, 2021 after the restatement to beginning net position.

- Expenses for the year ended December 31, 2022 were $9,490,795. Revenues exceeded expenses (including depreciation) by $2,439,588. Included in expenses is $666,157 in depreciation.

- The general fund reported a fund balance of $7,995,106. This is an increase of $1,214,159 in comparison to the prior year December 31, 2021 after the restatement to beginning fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District was formed as a political subdivision of the State of Texas in July 2003 when the existing Rural Fire Prevention District #4 (Health and Safety Code 794) was converted by the State of Texas to an emergency services district under Health and Safety Code 775. The District levies a property valuation tax and collects a sales tax for its jurisdiction. The District's Annual Financial Report consists of a series of financial statements and accompanying notes, with the primary focus being on the District as a whole. The statement of net position and the statement of activities are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The fund financial statements report the District's operations in more detail by providing information as to how services are financed in the short-term, as well as the remaining available resources for future spending. Additionally, the fund financial statements focus on major funds rather than fund types. The District's main operating fund is the general fund. This fund accounts for property tax revenues, sales tax revenues, and intergovernmental payments which are collected monthly on behalf of the District. Comal County collects ad valorem property tax, and the State Comptroller's office collects the sales tax.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities – Emergency services operating activities are reported in these statements.

The statement of net position and the statement of activities present a view of the District's financial operations as a whole, reflect all financial transactions, and provide information helpful in determining whether the District's financial health or position has improved or deteriorated as a result of the current year's activities. Both of these statements are prepared using the full accrual basis of accounting similar to that used by most private-sector companies. The statement of net position includes all assets and liabilities, both short and long-term as well as deferred outflows and inflows of resources. The statement of activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The two government-wide statements report the District's net position, which represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Over time, the increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating.

Additionally, the District's financial operating results are determined by the difference between the revenues and expenses. To assess the overall financial health of the District, consideration should be given to additional non-financial factors such as changes in the District's tax base.

FUND FINANCIAL STATEMENTS

The fund financial statements are designed to report information by grouping related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives.

Governmental Funds - The accounting for the District's basic services are included in the governmental funds. The measurement focus and basis of accounting used for reporting continues to be the modified accrual basis which measures inflows and outflows of current financial resources and the remaining balances at year-end that are available for spending. Furthermore, under this basis of accounting, changes in net spendable assets are normally recognized only to the extent that they are expected to have a near-term impact, while inflows are recognized only if they are available to liquidate liabilities of the current period. Similarly, future outflows are typically recognized only if they represent a depletion of current financial resources. The District's governmental funds are the general fund and debt service fund. The differences in the amounts reported between the fund statements and the government-wide statements are explained in the reconciliations provided on pages 11 and 13.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide disclosures and additional information that are essential to a full understanding of the financial information presented in the government-wide and fund financial statements. The notes to the financial statements are provided starting on page 14.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information beginning on page 36.

Financial analysis of the District as a whole

The District had an unrestricted net position of $8,854,752 at December 31, 2022. This is a $1,560,637 increase over last's year's unrestricted net position of $7,294,115. The repayment of existing loans along with an increased receipt of property and sales taxes, capital asset changes and associated depreciation of those capital assets accounts for the change in net position.

In accordance with GASB Statement No. 34, comparative analysis of government-wide information from prior year to current year is presented.

Statement of Net Position

A schedule of the District's net position is summarized as follows:

	GOVERNMENTAL ACTIVITIES	
	2022	2021
ASSETS:		
Current assets	$ 13,638,698	$ 11,504,832
Noncurrent assets	12,586,254	11,976,145
Total assets	26,224,952	23,480,977
DEFERRED OUTFLOWS OF RESOURCES	1,554,869	1,578,020
LIABILITIES:		
Current liabilities	1,321,222	1,237,621
Non-current liabilities	3,605,437	4,888,535
Total liabilities	4,926,659	6,126,156
DEFERRED INFLOWS OF RESOURCES	6,045,202	4,519,780
NET POSITION:		
Net investment in capital assets	7,953,208	7,118,946
Unrestricted net position	8,854,752	7,294,115
Total net position	$ 16,807,960	$ 14,413,061

Statement of Activities

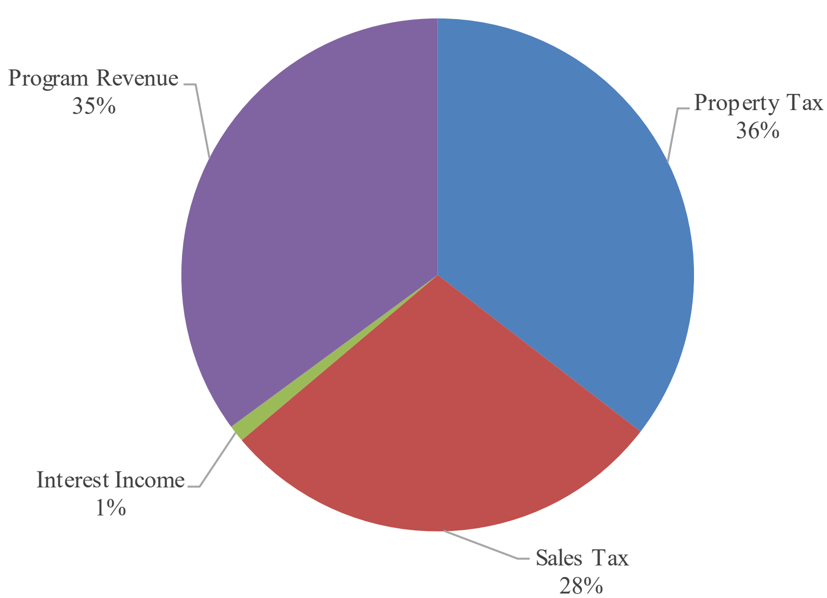
The District's total revenues were $11,930,383 in 2022. In 2022, 36% of the total revenue came from ad valorem property taxes, 28% of revenue came from sales tax, and 1% of revenue came from interest earnings. In addition, 35% came from payments from program revenues such as the interlocal agreement with ESD 2 to provide EMS operations within the same geographical boundaries as ESD 3 and the interlocal agreement with ESD 6 to provide Fire Protection and EMS operations to a portion of their district adjacent to the ESD 3 service area. For more information, see note 5 – Intergovernmental Revenues of the financial statements.

For the year ended December 31, 2022, the total expenses were $9,490,795 including $666,157 of depreciation expense and $742,288 of general government expenses.

The following table summarizes the changes in the District's net position from its activities for the years ended December 31:

	GOVERNMENTAL ACTIVITIES	
	2022	2021
REVENUES:		
Program revenues	$ 4,186,025	$ 3,877,380
General revenues	7,744,358	6,990,129
Total revenues	11,930,383	10,867,509
EXPENSES:		
Public safety	8,661,341	7,412,762
General government	742,288	888,885
Interest on debt	87,166	278,702
Total expenses	9,490,795	8,580,349
Change in net position	2,439,588	2,287,160
NET POSITION - BEGINNING OF YEAR	14,413,061	12,125,901
RESTATEMENT OF NET POSITION	(44,689)	-
NET POSITION - AS RESTATED - BEGINNING OF YEAR	14,368,372	12,125,901
NET POSITION - END OF YEAR	$ 16,807,960	$ 14,413,061

The following chart is a graphic representation of the District's revenue for the year ended December 31, 2022.



Capital assets and debt administration

Capital Assets

Net investment in capital assets was $12,140,535 at December 31, 2022. Capital assets include land, construction in progress, buildings and improvements, vehicles, and firefighting equipment. The significant additions for the year were completion of two new stations and operational equipment for the firefighters. The following table shows capital assets for 2022 with comparison for 2021.

	GOVERNMENTAL ACTIVITIES	
	2022	2021
Land	$ 367,553	$ 367,553
Construction in progress	704,671	-
Building and improvements	10,605,860	10,605,860
Equipment	1,346,920	1,271,039
Vehicles	5,587,388	5,537,393
Total capital assets	18,612,392	17,781,845
Accumulated depreciation	(6,471,857)	(5,805,700)
Capital assets, net	$ 12,140,535	$ 11,976,145

Long-Term Debt

At the end of 2022, the District has notes payable with a remaining balance of $4,187,327. The following table shows the District's long-term debt for 2022 with comparison for 2021.

	GOVERNMENTAL ACTIVITIES	
	2022	2021
Notes payable	$ 4,187,327	$ 4,857,199
Total debt	$ 4,187,327	$ 4,857,199

More detailed information is provided on the District's capital asset and debt activity in note 3 and note 4 to the financial statements beginning on page 22.

Economic factors and next year's budgets and rates

The ad valorem tax rate is $0.0625 per $100 property valuation which was a decrease from 2022 tax year of $.072. The District expects increased revenues for the 2023 year due to an increase in certified property valuations and taxes related to new construction. The sales tax revenues are also expected to increase from the 2022 collections.

BUDGETARY HIGHLIGHTS

Actual revenues for the general fund in 2022 were more than budgeted amounts by $846,043. Sales tax collections were substantially higher as a result of economic activity in the District's jurisdiction. Expenditures were under budget in 2022 by $279,504 primarily due to less general government and capital outlay expenditures than anticipated.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers, patrons and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Angela Hemphill, Chief Financial Officer at 830-907-2922, ext 304, or at Station 51, 1074 Scissortail, Canyon Lake, Texas 78133.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-Wide Financial Statements – Governmental Activities
- Fund Financial Statements – Governmental Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

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COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES

December 31, 2022

ASSETS:	
Cash and cash equivalents	$ 114,922
Investments	8,104,240
Cash with fiscal agent - Tax Assessor-Collector	2,141,019
Receivables - property taxes	
Current taxes receivable	2,506,895
Delinquent taxes receivable	86,809
Sales tax receivable	619,089
Other receivables	4,065
Prepaid expenses	61,659
Net pension asset	445,719
Capital assets (net)	
Land	367,553
Construction in progress	704,671
Buildings and improvements	8,586,865
Equipment	435,984
Vehicles	2,045,462
Total assets	26,224,952
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred outflows of resources - pension	1,529,045
Deferred outflows of resources - OPEB	25,824
Total deferred outflows of resources	1,554,869
LIABILITIES:	
Accounts payable	137,065
Accrued liabilities	308,524
Accrued interest payable	80,325
Compensated absences	163,343
Notes payable - due in one year	631,965
Non-current liabilities	
Notes payable - due in more than one year	3,555,362
OPEB liability	50,075
Total liabilities	4,926,659
DEFERRED INFLOWS OF RESOURCES:	
Current year property taxes levied for subsequent period	5,040,554
Deferred inflows of resources - pensions	1,002,557
Deferred inflows of resources - OPEB	2,091
Total deferred inflows of resources	6,045,202
NET POSITION:	
Net investment in capital assets	7,953,208
Unrestricted	8,854,752
Total net position	$ 16,807,960

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

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES

For the year ended December 31, 2022

		PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
Primary government				
Governmental activities:				
Public safety	$ 8,661,341	$ 4,052,923	$ 133,102	$ (4,475,316)
General government	742,288	-	-	(742,288)
Interest and other fees	87,166	-	-	(87,166)
Total governmental activities	$ 9,490,795	$ 4,052,923	$ 133,102	(5,304,770)
General revenues				
Taxes:				
Property taxes				4,229,787
Sales taxes				3,388,369
Interest income				126,202
Total general revenues and transfers				7,744,358
Change in net position				2,439,588
NET POSITION AT BEGINNING OF YEAR				14,413,061
RESTATEMENT OF BEGINNING NET POSITION				(44,689)
NET POSITION AT BEGINNING OF YEAR-RESTATED				14,368,372
NET POSITION AT END OF YEAR				$ 16,807,960

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

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2022

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	$ 114,922	$ -	$ 114,922
Investments	8,104,240	-	8,104,240
Cash with fiscal agent - Tax Assessor-Collector	1,798,456	342,563	2,141,019
Receivables - property taxes			
Current taxes receivable	2,107,856	399,039	2,506,895
Delinquent taxes receivable	73,908	12,901	86,809
Sales tax recievable	619,089	-	619,089
Other receivables	4,065	-	4,065
Prepaid expenses	61,659	-	61,659
Due from other funds	-	122,625	122,625
Total assets	$ 12,884,195	$ 877,128	$ 13,761,323
LIABILITIES:			
Accounts payable	$ 137,065	$ -	$ 137,065
Accrued expenses	308,524	-	308,524
Due to other funds	122,625	-	122,625
Total liabilities	568,214	-	568,214
DEFERRED INFLOWS OF RESOURCES:			
Current property taxes collected for subsequent period	2,139,111	407,450	2,546,561
Uncollected property taxes	2,181,764	411,940	2,593,704
Total deferred inflows of resources	4,320,875	819,390	5,140,265
FUND BALANCE			
Nonspendable	61,659	-	61,659
Restricted - debt service	-	57,738	57,738
Unassigned	7,933,447	-	7,933,447
Total fund balance	7,995,106	57,738	8,052,844
Total liabilities, deferred inflows of resources, and fund balance	$ 12,884,195	$ 877,128	$ 13,761,323

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

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES

December 31, 2022

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 8,052,844
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not spendable current financial resources and, therefore, are not reported in the balance sheet of governmental funds.		12,140,535
Delinquent property taxes deferred in the funds are recognized as revenue in the governmental activities.		99,711
Interest expense accrued on long-term debt is not reported in the funds.		(80,325)
Accrued vacation leave payable is not due and payable in the current period and, therefore, is not reported in the funds.		(163,343)
Recognition of the District's net pension liability required by GASB Statement No. 68 and the changes in deferred outflows of resources related to the TCDRS liability is not reported in the funds:		
Net pension asset	$ 445,719	
Deferred inflows of resources - TCDRS - pension	(1,002,557)	
Deferred outflows of resources - TCDRS - pension	1,529,045	972,207
Recognition of the District's other postemployment benefit liability (OPEB) required by GASB Statement No. 75 and the changes in deferred outflows of resources related to the TCDRS liability is not reported in the funds:		
Other postemployment benefit liability	(50,075)	
Deferred outflows of resources - TCDRS - OPEB	25,824	
Deferred inflows of resources - TCDRS - OPEB	(2,091)	(26,342)
Payables for loans which are not due in the current period are not reported in the funds.		(4,187,327)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		$ 16,807,960

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

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the year ended December 31, 2022

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Property tax revenue	$ 3,424,546	$ 818,046	$ 4,242,592
Sales tax revenue	3,388,369	-	3,388,369
Charges for services	284,227	-	284,227
Intergovernmental payments	3,768,696	-	3,768,696
Operating grants	133,102	-	133,102
Operating contributions	126,202	-	126,202
Interest	-	-	-
Total revenues	11,125,142	818,046	11,943,188
EXPENDITURES:			
Public safety	8,325,411	-	8,325,411
General government	755,025	-	755,025
Capital outlay	830,547	-	830,547
Debt service:			
Principal	-	669,872	669,872
Interest and fees	-	54,036	54,036
Total expenditures	9,910,983	723,908	10,634,891
Excess of revenues over expenditures	1,214,159	94,138	1,308,297
Net change in fund balance	1,214,159	94,138	1,308,297
FUND BALANCE - BEGINNING OF YEAR	6,929,632	(36,400)	6,893,232
RESTATEMENT OF FUND BALANCE	(148,685)	-	(148,685)
FUND BALANCE - AS RESTATED	6,780,947	(36,400)	6,744,547
FUND BALANCE - END OF YEAR	$ 7,995,106	$ 57,738	$ 8,052,844

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

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

RECONCILIATION OF CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES AND CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS

For the year ended December 31, 2022

NET CHANGE IN FUND BALANCES	$ 1,308,297
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures ($830,547). However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense ($666,157). This is the amount by which capital outlays exceeded depreciation expense in the period.	164,390
Delinquent property tax revenues are deferred in the funds. This is the change in these amounts this year.	(12,805)
Accrued interest payable is not an expense in the funds. This is the change in these amounts this year.	(33,130)
Accrued vacation leave payable is not an expense in the funds. This is the change in this amount this year.	(35,744)
The change in net pension liability and deferred outflows related to the District's net pension liability is not expensed in the funds. This is the change in this amount this year.	385,370
The change in other postemployment benefit liability (OPEB) and deferred outflows related to the District's OPEB liability is not expensed in the funds. This is the change in this amount this year.	(6,662)
Payments and borrowings on long-term debt is not reported as an expenditure on the statement of activities.	
Principal payment	669,872
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 2,439,588

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

(1) Summary of significant accounting policies

The financial statements of Comal County Emergency Services District No. 3 (the District) have been prepared in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting entity

Comal County Emergency Services District No. 3 is a political subdivision under the State of Texas created by local election under Health and Safety Code Chapter 775. The five-member Board of Emergency Services Commissioners (the Board) has governance responsibilities over all activities related to fire emergency service operations within the jurisdiction of the District. The Board is appointed by the Commissioner's Court of Comal County, Texas and has the exclusive power and duty to govern the District. The District receives funding from local government sources established by the State of Texas and must comply with the state requirements from these sources.

Basis of presentation, basis of accounting

Basis of presentation

Government-wide statements: The statement of net position and the statement of activities include the financial activities of the overall government. Governmental activities generally are financed through taxes and intergovernmental payments.

The statement of activities presents the functions of public safety and general government. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) intergovernmental payments, fees, fines and charges paid for goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including property tax, sales tax, unrestricted contributions, and interest income are presented as general revenues.

Fund financial statements: The fund financial statements provide information about the District's major governmental funds:

General fund - This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt service fund – The debt service fund is used to account for resources accumulated for the payment of principal and interest on long-term debt of the District. It is primarily funded through pledged ad valorem taxes.

(1) Summary of significant accounting policies (continued)

Basis of presentation, basis of accounting (continued)

Measurement focus, basis of accounting

Government-wide financial statements: These financial statements are reported using the economic resources measurement focus. The government-wide statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, grants and contributions. On an accrual basis, revenue from property taxes and sales taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues from local sources consist primarily of property taxes and sales taxes. Property tax for the current year’s levy and sales tax revenues are recognized when received. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District’s practice to use restricted resources first, then unrestricted resources.

Cash and cash equivalents

The District considers cash and cash equivalents to be cash in demand accounts, certificates of deposit, savings accounts, and other investments with an original maturity of three (3) months or less.

Investments

Investments for the District are stated at fair value. The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

(1) Summary of significant accounting policies (continued)

Basis of presentation, basis of accounting (continued)

Investments (continued)

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Although the District’s 2022 ad valorem tax is levied on October 1, 2022, it is the District’s policy to recognize revenues from the October 1 tax levy in the calendar year when the proceeds of this levy are budgeted and made available for the District’s operations. The collections on the October 1, 2022 levy are considered deferred inflows of resources until the subsequent calendar year. No allowance for doubtful accounts is considered necessary at this time.

(1) Summary of significant accounting policies (continued)

Basis of presentation, basis of accounting (continued)

Capital assets

Capital assets are shown at original cost. Donated assets are valued at their fair market value on the date donated. Depreciation is calculated using the straight-line method and is based on estimated useful lives of 5 to 40 years.

Receivable and payable balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There are no significant receivables which are not scheduled for collection within one year of year end.

Compensated absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available resources is reported as an expenditure and fund liability of the governmental fund that will pay for it. Vested or accumulated vacation leave that is not expected to be liquidated with expendable available financial resources are reported in the government-wide statements. Accumulated vacation pay at December 31, 2022 of $163,343 has been recorded in the statement of net position.

Net pension liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCDRS's fiduciary net position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other postemployment benefit liability (OPEB)

The OPEB position has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense.

(1) Summary of significant accounting policies (continued)

Basis of presentation, basis of accounting (continued)

Fund balance

The District reports the following categories of fund balance:

- Non-spendable - These funds are not available for expenditures based on legal or contractual requirements. An example might be inventories and prepaid expenditures.

- Restricted - These funds are governed by externally enforceable restrictions.

- Committed - Fund balances in this category are limited by the government's highest level of decision making (in this case the Board). Any changes of this designation must be done in the same manner that it was implemented. For example, if funds are committed by resolution, the commitment could only be released with another resolution.

- Assigned - For funds to be assigned, there must be an intended use which can be established by the Board or an official delegated by the Board, such as an administrator or finance director. For example, during the budget process, the Board may decide to use some existing fund balance to support activities in the upcoming year.

- Unassigned - This classification is the default for all funds that do not fit into the other categories.

Restricted amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year.

Management's use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

New accounting policy

As of January 1, 2022, the District implemented GASB Statement No. 87, *Leases*. The objectives of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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 resources.

The District did not have any agreements during the fiscal year that were covered under the new accounting policy.

(2) Deposits and investments

The depository bank deposits approved pledged securities for safekeeping and trust with the District's agent bank. 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.

Cash deposits and cash equivalents

At December 31, 2022, the carrying amount of the District’s deposits (cash and interest-bearing savings accounts included in cash and cash equivalents) was $114,921 and the bank balance was $133,565.

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.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law requires settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. The District’s investment policy requires that securities be registered in the name of the District. All safekeeping receipts for investment instruments are held in accounts in the District’s name, and all securities are registered in the name of the District.

At year-end and per District policy all funds were in the District’s name and collateralized with securities that maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service. The District was not exposed to custodial credit risk.

Interest rate risk

The District manages its interest rate risk by using certificates of deposit and TexPool, but by policy, other investments purchased may not have a maturity longer than one year from date of purchase.

Concentration of credit risk

The District diversifies its investments in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity or in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. At year end, the District was not exposed to concentration of credit risk.

(2) Deposits and investments (continued)

Credit risk

The District's policy to manage credit risk is to invest in U.S. Treasury or agency instruments, public funds investment pools, certificates of deposits, and money market accounts. The District is not exposed to foreign currency risk.

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (the Act) requires an annual audit of investment practices. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies. The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

Fair value measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

Texas Local Government Investment Pool (TexPool) is a public funds investment pool and is rated as AAA by Standard & Poors. Under the TexPool participation agreement, administration and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State of Texas Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool.

TexPool uses amortized cost to value portfolio assets and follows the criteria for GASB Statement No. 79 for use of amortized cost. Those investments do not place any limitations or restrictions, such as notice periods or maximum transaction amounts, on withdrawals.

(2) Deposits and investments (continued)

Fair value measurement (continued)

Certificates of deposit assets are recorded at amortized cost as fair value of these instruments are not recognized until maturity. A breakdown of the District's cash, cash equivalents, and investments at December 31, 2022 is shown below:

	CARRYING AMOUNT	LEVEL 1	AMORTIZED COST	DAYS TO MATURITY
Included in cash and cash equivalents:				
Checking accounts	$ 114,922	$ 114,922	$ -	n/a
Included in investments:				
TexPool	8,104,240	-	8,104,240	15
Total cash and investments	$ 8,219,162	$ 114,922	$ 8,104,240	
Weighted average maturity				15

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(3) Capital assets

Capital asset activity for the year ended December 31, 2022, was as follows:

	BEGINNING BALANCE	RECLASS AND ADDITIONS	RECLASS AND DISPOSALS	ENDING BALANCE
Capital assets, not being depreciated:				
Land	$ 367,553	$ -	$ -	$ 367,553
Construction in progress	-	704,671	-	704,671
Total capital assets, not being depreciated	367,553	704,671	-	1,072,224
Capital assets, being depreciated:				
Buildings and improvements	10,605,860	-	-	10,605,860
Equipment	1,271,039	75,881	-	1,346,920
Vehicles	5,537,393	49,995	-	5,587,388
Total capital assets, being depreciated	17,414,292	125,876	-	17,540,168
Less accumulated depreciation:				
Buildings and improvements	(1,744,104)	(274,891)	-	(2,018,995)
Equipment	(792,878)	(118,058)	-	(910,936)
Vehicles	(3,268,718)	(273,208)	-	(3,541,926)
Total accumulated depreciation	(5,805,700)	(666,157)	-	(6,471,857)
Total capital assets, being depreciated - net	11,608,592	(540,281)	-	11,068,311
Total capital assets - net	$ 11,976,145	$ 164,390	$ -	$ 12,140,535

Depreciation was charged to the function of public safety for $652,384 and $13,773 was charged to general government.

(4) Long-term debt obligations

In 2014, the District secured a consolidated loan for two (2) existing stations at the lower interest rate of 3.242% compared to the previous two loans being 4.88% and 5.18% and decreased the term to only 10 years remaining. In 2021, the District paid $334,470 in principal payments and $33,600 in interest. The note is secured with future tax revenues.

In 2018, the District executed a $4,500,000 loan for the construction of two (2) fire stations at an interest rate of 3.75% maturing in 2033. In 2021, the District refinanced the loan at an interest rate of 1.985% maturing in 2033. The note is secured with future tax revenues. In 2022, the District paid $335,402 in principal payments and $20,436 in interest.

(4) Long-term debt obligations (continued)

Changes in long-term obligations for the year ended December 31, 2022, are as follows:

	ORIGINAL AMOUNT	BEGINNING BALANCE	ADDITIONS	PAYMENTS	ENDING BALANCE	AMOUNT DUE WITHIN ONE YEAR
Notes payable (direct borrowing)						
Southside Bank	$ 3,184,014	$ 1,036,295	$ -	$ (334,470)	$ 701,825	$ 345,315
TIB National Association	3,820,904	3,820,904	-	(335,402)	3,485,502	286,650
Total debt	$ 7,004,918	$ 4,857,199	$ -	$ (669,872)	$ 4,187,327	$ 631,965

The District's loan commitments, with an interest rate of 1.985% - 3.242% is as follows:

	PRINCIPAL	INTEREST	TOTAL
2023	$ 631,965	$ 91,942	$ 723,907
2024	648,851	75,056	723,907
2025	298,143	57,694	355,837
2026	304,062	51,776	355,838
2027	310,097	45,740	355,837
2028-2032	1,645,298	133,891	1,779,189
2033	348,911	6,926	355,837
	$ 4,187,327	$ 463,025	$ 4,650,352

(5) Intergovernmental revenues

The district contracts with ESD 2 to provide EMS operations within the same geographical boundaries as ESD 3 and ESD 6 to provide Fire Protection and EMS operations to a portion of their district adjacent to the ESD 3 service area. The agreement between ESD 2 and ESD 3 will expire December 31, 2024 and the agreement with ESD 6 will expire December 31, 2026. Payments under these agreements were $3,510,361 from ESD 2 and $258,335 from ESD 6 for fiscal year 2022.

(6) Pension plan

Plan description

Beginning in June 2009, the District began participation in the statewide Texas County and District Retirement System (TCDRS).

The District's pension plan is a non-traditional, joint contributory, defined benefit plan. The District, as an employer, provides retirement, disability, and death benefits for all its full-time employees through a nontraditional defined-benefit pension plan in the statewide Texas County and District Retirement System. The plan is a statewide, agent multi-employer, public employee retirement system. The system serves nearly 800 participating counties and districts throughout Texas.

The plan provisions for the District are adopted by the Board within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire with 20 years of service regardless of age; or when the sum of their ages and years of service equals 80 or more. Members are vested after 10 years of service but their accumulated deposits and allocated interest must remain in the plan to receive any employer financed benefit. Members who withdraw their personal account balance in a lump sum prior to retirement are not entitled to any amounts contributed by the District.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the Board of the employer within the actuarial constraints imposed by the TCDRS Act so that the defined benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees covered by benefit terms

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	38
Active employees	72
Total	112

Contributions

The contributions rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employees gross earnings, as adopted by the employer's Board. The contribution rate is determined annually by the actuary, using the entry age normal actuarial cost method. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees. The employee deposit rate and the employer contribution rate may be changed by the Board of the employer within the options available to the TCDRS Act.

(6) Pension plan (continued)

Contributions (continued)

The District has elected the variable rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer, based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 9.41% for the year ending December 31, 2022 of annual covered payroll. Plan members are required to contribute 7% of their annual covered salary.

For the employer's accounting year ending December 31, 2022, the annual pension cost for the TCDRS Plan for its employees was $398,063 and the employer contributions were $568,662.

Net pension liability

The annual required contributions were actuarially determined as a percent of covered payroll of the participating employees, and were in compliance with the GASB Statement No. 68 parameters based on the actuarial valuations as of December 31, 2019 and December 31, 2020, the basis for determining the contribution rates for calendar years 2021 and 2022, respectively.

The District's net pension liability (NPL) was measured as of December 31, 2021, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date. The December 31, 2021 actuarial valuation is the most recent valuation.

Actuarial valuation information:

The total pension liability in the December 31, 2021 actuarial valuations was determined using the following actuarial assumptions:

Actuarial valuation date	12/31/2021
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Amortization period	12.7 years
Asset valuation method	5 year smoothed fair value
Actuarial assumptions:	
Investment return*	7.50%
Overall payroll growth	4.70
Inflation	2.50
Cost-of-living adjustments	0.00

*Includes inflation, net investment expenses

(6) Pension plan (continued)

Net pension liability (continued)

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.0% (made up of 2.5% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.7% per year for a career employee. Mortality rates for active members were based on gender-distinct Pub-2010 General Employees Amount-Weighted Mortality Table for males at 135% and females at 120%, both projected with 100% of the MP-2021 Ultimate scale after 2010. Mortality rates for retirees, beneficiaries, and non-active members were based on 135% of the Pub-2010 General Retirees Amount-Weighted Mortality Tables for males at 135% and 120% for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

For disabled annuitants, mortality rates were based on 160% of the Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

The long-term expected rate of return on pension plan investments is 7.5%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on TCDRS assets is calculated by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS's investment consultants and are based on January 2022 information for a 10 year time horizon.

Asset Class	Target Allocation	Geometric Real Rate of Return (expected minus inflation)
U.S. Equities	11.50%	3.80%
Private Equity	25.00%	6.80%
Global Equities	2.50%	4.10%
International Equities - Developed	5.00%	3.80%
International Equities - Emerging	6.00%	4.30%
Investment - Grade Bonds	3.00%	-0.85%
Strategic Credit	9.00%	1.77%
Direct Lending	16.00%	6.25%
Distressed Debt	4.00%	4.50%
REIT Equities	2.00%	3.10%
Master Limited Partnerships (MLPs)	2.00%	3.85%
Private Real Estate Partnerships	6.00%	5.10%
Hedge Funds	6.00%	1.55%
Cash Equivalents	2.00%	-1.05%
Total	100.00%	

(6) Pension plan (continued)

Net pension liability (continued)

Discount rate

The discount rate used to measure the total pension liability was 7.6%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability

		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2020	$ 6,869,285	$ 6,208,255	$ 661,030
Changes for the year:			
Service cost	622,502	-	622,502
Interest on total pension liability	567,140	-	567,140
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	123,060	-	123,060
Effect of assumptions changes or inputs	110,163	-	110,163
Refund of contributions	(38,103)	(38,103)	-
Benefit payments	(21,825)	(21,825)	-
Administrative expense	-	(4,695)	4,695
Member contributions	-	347,095	(347,095)
Net investment income	-	1,475,145	(1,475,145)
Employer contributions	-	682,877	(682,877)
Other	-	29,192	(29,192)
Net changes	1,362,937	2,469,686	(1,106,749)
Balance at December 31, 2021	$ 8,232,222	$ 8,677,941	$ (445,719)

(6) Pension plan (continued)

Net pension liability (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the District, calculated using the discount rate of 7.6%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.6%) or 1-percentage-point higher (8.6%) than the current rate:

	1% Decrease in Discount Rate (6.6%)	Discount Rate (7.6%)	1% Increase in Discount Rate (8.6%)
Total pension liability	$ 10,257,569	$ 8,232,222	$ 6,668,372
Fiduciary net position	8,677,940	8,677,941	8,677,940
District's net pension liability (asset)	$ 1,579,629	$ (445,719)	$ (2,009,568)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www.tcdrs.org.

Pension expense and deferred outflows and inflows of resources related to pensions

For the year ended December 31, 2022, the District recognized pension expense of $183,292.

At December 31, 2022, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 354,237	$ 111,103
Changes in actuarial assumptions	606,146	18,899
Difference between projected and actual investment earnings	-	872,555
Contributions subsequent to the measurement date	568,662	-
Total	$ 1,529,045	$ 1,002,557

(6) Pension plan (continued)

Pension expense and deferred outflows and inflows of resources related to pensions (continued)

The District reported $568,662 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability for the year ending December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	
2023	$ (94,532)
2024	(165,080)
2025	(113,214)
2026	(65,026)
2027	136,832
Thereafter	258,846
Total	$ (42,174)

(7) Other postemployment benefit liability (OPEB)

Plan description

The District participates in the Group Term Life Fund administered by Texas County and District Retirement System (TCDRS). The Group Term Life program is voluntary and employers can cease participation at any time. Therefore, the funding policy of the program is to ensure that adequate resources are available to meet all insurance benefit payments for the upcoming year. It is not the intent of the funding policy to pre-fund retiree term life insurance during employees' entire careers.

Current employees of participating employers are insured for an amount equivalent to the employee's current annual compensation and may also choose to cover retirees. Retirees are insured for $5,000. The District has elected to cover eligible retirees as part of the plan. Life insurance proceeds are payable as a lump sum. The coverage provided to retirees is a postemployment benefit other than pension benefits (OPEB).

Employees covered by benefit terms

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	12
Active employees	72
Total	85

(7) Other postemployment benefit liability (OPEB) (continued)

Plan description (continued)

Contributions

Each participating employer contributes to the Group Term Life program at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is equal to the cost of providing one-year term life insurance. The premium rate is expressed as a percentage of the covered payroll of members employed by the participating employer. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

Other postemployment benefit liability

The annual required contributions were actuarially determined as a percent of covered payroll of the participating employees, and were in compliance with the GASB Statement No. 75 parameters based on the actuarial valuations as of December 31, 2019 and December 31, 2020, the basis for determining the contribution rates for calendar years 2021 and 2022, respectively.

The District's other postemployment benefit liability (OPEB) was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date. The December 31, 2021 actuarial valuation is the most recent valuation.

Actuarial valuation information:

The OPEB liability in the December 31, 2021 actuarial valuations was determined using the following actuarial assumptions:

Actuarial valuation date	12/31/2021
Actuarial cost method	Entry age normal
Amortization method	Straight-line over expected working life
Actuarial assumptions:	
Investment return	2.06%

Discount rate

The discount rate used to measure the OPEB liability was 2.06%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute.

(7) Other postemployment benefit liability (OPEB) (continued)

Other postemployment benefit liability (continued)

Changes in the OPEB liability

	OPEB Liability
Balance at December 31, 2020	$ 40,178
Changes for the year:	
Service cost	3,306
Interest on OPEB liability	922
Effect of plan changes	-
Effect of assumptions changes or inputs	4,197
Effect of economic/demographic gains or losses	1,472
Net changes	9,897
Balance at December 31, 2021	$ 50,075

Sensitivity of the other postemployment benefit liability to changes in the discount rate

The following presents the OPEB liability of the District, calculated using the discount rate of 2.06%, as well as what the District's OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.06%) or 1-percentage-point higher (3.06%) than the current rate:

	1% Decrease in Discount Rate (1.06%)	Discount Rate (2.06%)	1% Increase in Discount Rate (3.06%)
OPEB liability	$ 72,832	$ 50,075	$ 34,908

OPEB expense and deferred outflows of resources related to OPEB

For the year ended December 31, 2022, the District recognized OPEB expense of $6,662.

(7) Other postemployment benefit liability (OPEB) (continued)

OPEB expense and deferred outflows of resources related to OPEB (continued)

At December 31, 2022, the District reported deferred outflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 10,358	$ -
Changes in actuarial assumptions	15,466	2,091
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	-	-
Total	$ 25,824	$ 2,091

Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended December 31,	
2023	$ 2,434
2024	2,434
2025	2,434
2026	2,434
2027	2,434
Thereafter	11,563
Total	$ 23,733

(8) Risk management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2022, the District obtained general liability coverage through a commercial insurer, VFIS of Texas. The District continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

(9) Restatement of net position and fund balance

During the year the District identified that the prior year's accrued interest payable was misstated by $103,996. The result was an increase to beginning net position. Also, the District identified that it had not recognized a loan refinance expense of $148,685 in the prior year resulting in a decrease to beginning net position. The general fund's beginning fund balance was also decreased by $148,685.

(10) Evaluation of subsequent events

The District has evaluated subsequent events through May 15, 2023, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL ON A GAAP BASIS – GENERAL FUND

For the year ended December 31, 2022

	BUDGETED AMOUNTS ORIGINAL	BUDGETED AMOUNTS FINAL	GAAP BASIS ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
REVENUES:				
Property tax revenue	$ 3,342,901	$ 3,342,901	$ 3,424,546	$ 81,645
Sales tax revenue	2,600,000	2,600,000	3,388,369	788,369
Charges for services	134,800	134,800	284,227	149,427
Operating grants	50,000	50,000	133,102	83,102
Intergovernmental	4,124,258	4,123,898	3,768,696	(355,202)
Operating contributions	2,500	2,500	126,202	123,702
Other income	17,500	17,500	-	(17,500)
Interest earnings	7,500	7,500	-	(7,500)
Total revenues	10,279,459	10,279,099	11,125,142	846,043
EXPENDITURES:				
Public safety	8,075,538	8,486,288	8,325,411	160,877
General government	1,051,029	827,096	755,025	72,071
Capital outlay	857,234	877,103	830,547	46,556
Total expenditures	9,983,801	10,190,487	9,910,983	279,504
Excess of revenue over expenditures	295,658	88,612	1,214,159	1,125,547
Net change in fund balance	295,658	88,612	1,214,159	1,125,547
FUND BALANCES - BEGINNING OF YEAR	6,929,632	6,929,632	6,929,632	-
RESTATEMENT OF FUND BALANCE	(148,685)	(148,685)	(148,685)	-
FUND BALANCES - BEGINNING OF YEAR - AS RESTATED	6,780,947	6,780,947	6,780,947	-
FUND BALANCES - END OF YEAR	$ 7,076,605	$ 6,869,559	$ 7,995,106	$ 1,125,547

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

Measurement year ended December 31,

	2021	2020	2019	2018
Total Pension Liability				
Service cost	$ 622,502	$ 446,962	$ 422,540	$ 389,909
Interest on the total pension liability	567,140	452,926	385,435	318,525
Effect of plan changes	-	-	-	-
Effect of assumption changes	110,163	652,632	-	-
Effect of economic/demographic (gains) or losses	123,060	183,167	22,652	122,950
Refund of contributions	(38,103)	-	-	-
Benefit payments/refunds of contributions	(21,825)	(21,825)	(21,825)	(53,493)
Net change in total pension liability	1,362,937	1,713,862	808,802	777,891
Total pension liability - beginning	6,869,285	5,155,423	4,346,621	3,568,730
Total pension liability - ending (a)	$ 8,232,222	$ 6,869,285	$ 5,155,423	$ 4,346,621
Fiduciary Net Position				
Employer contributions	$ 682,877	$ 391,463	$ 296,934	$ 309,596
Member contributions	347,095	308,585	243,104	227,167
Investment income, net of investment expenses	1,475,145	517,553	629,166	(57,896)
Benefit payments/refunds of contributions	(21,825)	(21,825)	(21,825)	(53,493)
Administrative expense	(4,695)	(4,542)	(3,807)	(3,080)
Refund of contributions	(38,103)	-	-	-
Other	29,192	20,564	18,438	14,738
Net change in plan fiduciary net position	$ 2,469,686	$ 1,211,798	$ 1,162,010	$ 437,032
Plan fiduciary net position - beginning	6,208,255	4,996,457	3,834,447	3,397,415
Plan fiduciary net position - ending (b)	8,677,941	6,208,255	4,996,457	3,834,447
Net pension liability (a) - (b)	$ (445,719)	$ 661,030	$ 158,966	$ 512,174
Plan fiduciary net position as a percentage of total pension liability	105.41%	90.38%	96.92%	88.22%
Covered payroll	$ 4,958,502	$ 4,408,361	$ 3,472,912	$ 3,245,236
Net pension liability as a percentage of total covered payroll	-8.99%	14.99%	4.58%	15.78%

GASB Statement No. 68 requires 10 years of data to be provided in this schedule. This is the eighth year of implementation of GASB Statement No. 68. The District will develop and present the schedule prospectively.

	2017	2016	2015	2014
	$ 337,327	$ 337,391	$ 320,138	$ 290,129
	274,419	225,246	205,693	161,604
	-	-	(104,237)	110,351
	(42,524)	-	7,175	-
	(34,978)	(91,675)	(216,659)	76,123
	-	-	-	-
	(31,544)	(39,896)	(14,132)	-
	502,700	431,066	197,978	638,207
	3,066,030	2,634,964	2,436,986	1,798,779
	$ 3,568,730	$ 3,066,030	$ 2,634,964	$ 2,436,986
	$ 272,372	$ 247,904	$ 242,403	$ 197,676
	199,436	181,143	172,968	165,320
	382,380	150,009	(21,239)	82,165
	(31,544)	(39,895)	(14,132)	-
	(2,259)	(1,631)	(1,320)	(1,085)
	-	-	-	-
	5,878	39,106	(133)	(78)
	$ 826,263	$ 576,636	$ 378,547	$ 443,998
	2,571,152	1,994,516	1,615,969	1,171,971
	3,397,415	2,571,152	1,994,516	1,615,969
	$ 171,315	$ 494,878	$ 640,448	$ 821,017
	95.20%	83.86%	75.69%	66.31%
	$ 2,849,079	$ 2,587,750	$ 2,470,971	$ 2,361,717
	6.01%	19.12%	25.92%	34.76%

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS – NET PENSION LIABILITY

Last 10 fiscal years

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2013	$ 174,931	$ 174,931	$ -	$ 2,313,901	7.56%
2014	197,676	197,676	-	2,361,717	8.37%
2015	242,403	242,403	-	2,470,971	9.81%
2016	247,904	247,904	-	2,527,750	9.81%
2017	272,372	272,372	-	2,849,079	9.56%
2018	309,618	309,618	-	3,245,239	9.54%
2019	296,934	296,934	-	3,472,912	8.55%
2020	391,463	391,463	-	4,408,361	8.88%
2021	432,877	682,877	(250,000)	4,958,502	13.77%
2022	568,662	568,662	-	5,761,517	9.87%

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS

Measurement year ended December 31,

	Measurement year ended December 31,				
	2021	2020	2019	2018	2017
OPEB liability					
Service cost	$ 3,306	$ 2,155	$ 1,197	$ 1,416	$ 1,090
Interest on the OPEB liability	922	705	572	481	378
Effect of plan changes	-	-	-	-	-
Effect of assumption changes or inputs	4,197	8,005	8,412	(3,019)	1,554
Effect of economic/demographic (gains) or losses	1,472	5,735	633	1,323	626
Benefit payments	-	-	-	-	-
Net change in OPEB liability	9,897	16,600	10,814	201	3,648
OPEB liability - beginning	40,178	23,578	12,764	12,563	8,915
OPEB liability - ending	$ 50,075	$ 40,178	$ 23,578	$ 12,764	$ 12,563
Covered payroll	$ 4,958,502	$ 4,408,361	$ 3,472,912	$ 3,245,236	$ 2,849,079
OPEB liability as a percentage of covered employee payroll	1.01%	0.91%	0.68%	0.39%	0.44%

GASB Statement No. 75 requires 10 years of data to be provided in this schedule. This is the fifth year of implementation of GASB Statement No. 75. The District will develop and present the schedule prospectively.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2022

(1) Budgetary information

Budgets for the District are prepared in conformity with general accepted accounting principles (GAAP). The District legally adopts budgets for the general fund. All annual appropriations lapse at fiscal year end. All amendments to the District's budget requires Board approval prior to incurring such expenditure. At a minimum, the District is required to present the original and final budgets for the revenue and expenditures compared to actual revenues and expenditures for the general fund.

(2) Schedule of employer contributions - pensions

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12.7 years
Asset valuation method	5 year smoothed market
Inflation	2.50%
Salary increases	Varies by age and service. 4.7% average over career including inflation.
Investment rate of return	7.50%, net of administrative and investment expenses, including inflation.
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in assumptions and methods reflected in the schedule of employer contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected.
Changes in plan provisions reflected in the schedule of employer contributions*	2015: Employer contributions reflect that the current service matching rate was increased to 200%. 2016: No changes in plan provisions were reflected. 2017: New annuity purchase rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected. 2019: No changes in plan provisions were reflected. 2020: No changes in plan provisions were reflected. 2021: No changed in plan provisions were reflected.

* Only changes effective 2015 and after are shown in the notes to schedule of contributions - pensions.

OTHER SUPPLEMENTARY INFORMATION

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COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL ON A GAAP BASIS – DEBT SERVICE FUND

For the year ended December 31, 2022

	BUDGETED AMOUNTS ORIGINAL	BUDGETED AMOUNTS FINAL	GAAP BASIS ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
REVENUES:				
Property tax revenue	$ 724,979	$ 724,979	$ 818,046	$ 93,067
Total revenues	724,979	724,979	818,046	93,067
EXPENDITURES:				
Debt service				
Principal	669,872	669,872	669,872	-
Interest	88,543	88,543	54,036	34,507
Total expenditures	758,415	758,415	723,908	34,507
Excess of revenue over expenditures	(33,436)	(33,436)	94,138	58,560
Net change in fund balance	(33,436)	(33,436)	94,138	58,560
FUND BALANCES - BEGINNING OF YEAR	(36,400)	(36,400)	(36,400)	-
FUND BALANCES - END OF YEAR	$ (69,836)	$ (69,836)	$ 57,738	$ 58,560

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OTHER INFORMATION

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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*

To the Board of Commissioners
Comal County Emergency Services District No. 3
Canyon Lake, Texas

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 governmental activities and the major funds of the Comal County Emergency Services District No. 3 (the District), as of and for the year ended December 31, 2022, 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 15, 2023.

<u>Internal Control Over Financial Reporting,</u>

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting 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 District'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 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.

7330 San Pedro Ave | Suite 901 | San Antonio, TX 78216 | (210) 341-2581 | Fax: (210) 341-2588 | abipcpa.com

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.*

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 the 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.

ABIP, PC

San Antonio, Texas
May 15, 2023