

**HAYS COUNTY EMERGENCY
SERVICES DISTRICT #3**

**BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2014

**William A. Grimsley, CPA
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Hays County Emergency Services District #3
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Hays County Emergency Services District #3
San Marcos, Texas

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hays County Emergency Services District #3 (the District) as of and for the year ended December 31, 2014, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hays County Emergency Services District #3, as of December 31, 2014, and the respective changes in financial position thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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 3-7 and page 24, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 15, 2015, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the District's internal control over financial reporting and compliance.



William A. Grimsley, CPA

Killeen, Texas

May 15, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3 MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hays County Emergency District #3's (the District) financial performance provides an overview and analysis of the District's financial activities for the year ended December 31, 2014. Please read it in conjunction with the Independent Auditor's Report starting on page 1, the accompanying basic financial statements starting on page 8, and the notes to the financial statements starting on page 14.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the year by \$4,266,625 (net position). Of this amount, \$516,040 is unrestricted and may be used to meet the District's future obligations.
- During the year the District had total expenses of \$1,113,927 compared to revenues of \$1,760,590, resulting in an increase in its net position by \$646,663.
- On May 23, 2014, the District secured a loan agreement with Sage Capital Bank of \$4,400,000, for the construction of a new station.
- The District's investment in capital assets totaled \$4,432,660, net of accumulated depreciation of \$2,472,828. This net increase of \$1,626,508 was primarily the result of work-in-process additions on the new station of \$1,767,097.
- Debt at year-end of \$852,121 increased by \$660,121, the result of \$708,121 in loan draws for the new station, off-set by \$48,000 in note payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide the readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all the District's assets, liabilities, and deferred inflows/outflows with the difference reported as net position. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial health is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3 MANAGEMENT'S DISCUSSION AND ANALYSIS

flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods. This may include uncollected taxes and other revenues or expenses that are appropriated for the current year even though cash is not received or expended until the following year. The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has only one governmental fund.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The District maintains two governmental funds, the General Fund and the Debt Service Fund. The basic governmental fund financial statements can be found on pages 10-13 of this report.

Notes to the Financial Statements. The notes provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements. These can be found starting on page 14.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. The District's net assets exceed liabilities by \$4,266,625 as of December 31, 2014. A large portion of the District's net position reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. (See Table I).

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table I
NET POSITION

	2014	2013	\$ Change	% Change
Current and other assets	\$ 1,366,502	\$ 1,227,311	\$ 139,191	11.3%
Capital assets, net	4,432,660	2,806,152	1,626,508	58.0%
Total assets	<u>5,799,162</u>	<u>4,033,463</u>	<u>1,765,699</u>	<u>43.8%</u>
Current liabilities	680,416	221,501	458,915	207.2%
Long-term liabilities	852,121	192,000	660,121	343.8%
Total liabilities	<u>1,532,537</u>	<u>413,501</u>	<u>1,119,036</u>	<u>270.6%</u>
Net position:				
Net investment in capital assets	3,580,539	2,614,152	966,387	37.0%
Restricted	170,046	-	170,046	100.0%
Unrestricted	516,040	1,005,810	(489,770)	-48.7%
Total net position	<u>\$ 4,266,625</u>	<u>\$ 3,619,962</u>	<u>\$ 646,663</u>	<u>17.9%</u>

Changes in Net Position. The following table provides a summary of the District's operations for the fiscal year 2014. Revenues totaled \$1,760,590 for the year, an increase of \$246,650 or 16.3%. Property and sales taxes are the largest components of revenue, accounting for 83.7 % of the total. However, charges for services reflected the largest dollar increase at \$198,394, primarily the result of a full year of the Texas Fire Academy training revenue (merged in October 2013). Expenses totaled \$1,113,927, an increase of \$68,746 or 6.6%, primarily in correlation with the Texas Fire Academy as discussed above. (See Table II).

Table II
CHANGES IN NET POSITION

	2014	2013	\$ Change	% Change
Program Revenues:				
Charges for services	\$ 264,355	\$ 65,961	\$ 198,394	300.8%
Grant income	17,703	17,406	297	1.7%
General Revenues:				
Tax revenues	1,473,555	1,418,338	55,217	3.9%
Interest income	2,125	2,377	(252)	-10.6%
Other income	2,852	9,858	(7,006)	-71.1%
Total revenues	<u>1,760,590</u>	<u>1,513,940</u>	<u>246,650</u>	<u>16.3%</u>
Expenses:				
General government	1,105,004	1,038,145	66,859	6.4%
Interest on long-term debt	8,923	7,036	1,887	26.8%
Total expenses	<u>1,113,927</u>	<u>1,045,181</u>	<u>68,746</u>	<u>6.6%</u>
Change in net position	<u>\$ 646,663</u>	<u>\$ 468,759</u>	<u>\$ 177,904</u>	<u>38.0%</u>

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3 MANAGEMENT'S DISCUSSION AND ANALYSIS

FINACIAL ANAYSIS OF THE DISTRICT'S FUNDS

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

As the District completed the year, its general fund (as presented in the balance sheet on page 10) reported a combined fund balance of \$754,128, (a decrease from the prior year of \$340,138), the result of the capital outlay for the new station, off-set partially by loan proceeds.

General Fund Budget Highlights. Actual revenues were \$36,168 higher than the budget. Actual expenditures, net of loan proceeds were \$376,306 higher than the budget, reflecting a net unfavorable variance of \$340,138, in the change in fund balance. This unfavorable variance was primarily the result of non-budgeted capital outlays for the work in progress on the new station, off-set partially by related non-budgeted loan proceeds. More detail is presented in the required supplementary information section on page 24.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District's investment in capital assets totaled \$4,432,660, net of accumulated depreciation, an increase of \$1,626,528 to prior year. This year's major additions included:

Work-in- Progress, New Station	\$1,767,097
Communication Equipment	\$ 159,763

More detailed information about the District's capital assets is presented in the Notes to the Financial Statements starting on page 20.

Debt

At year-end, the District's long-term debt was \$852,121, an increase over the prior year of \$660,121. This increase was the net result of financing for the new station, reduced by principal payments made on existing debt. More detailed information about the District's long-term debt is presented in the Notes to the Financial Statements starting on page 21.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3 MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's appointed officials considered many factors when setting the fiscal year 2015 budget and tax rates. Some of those factors include the economy and the anticipated needs of the District for operations and capital outlay in the next year.

The District adopted a \$1,611,751 balanced budget for fiscal year 2015. It will be funded primarily through property and sales taxes.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest therein. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Sharon O'Brien, Hays County Emergency Services District #3, 1401 W. San Antonio Street, San Marcos, Texas 78666.

BASIC FINANCIAL STATEMENTS
(Government-Wide)

Hays County Emergency Services District #3
Statement of Net Position
December 31, 2014

	<u>Total Governmental Activities</u>
ASSETS	\$ 743,203
Cash	
Receivables	394,816
Property taxes	117,152
Sales taxes	46,473
Texas Fire Academy fees	58,556
Prepaid assets	6,302
Inventory and other assets	
Capital assets:	95,966
Land	2,481,884
Trucks, vehicles and boats	1,006,176
Stations	28,589
Furniture and fixtures	176,611
Computers and software	909,860
Equipment	2,206,402
Work in progress	(2,472,828)
Less: accumulated depreciation	<u>\$ 5,799,162</u>
Total assets	
LIABILITIES	\$ 548,415
Accounts payable	14,607
Accrued liabilities	4,816
Accrued interest payable	112,578
Texas Fire Academy participant's deposits	
Noncurrent liabilities:	143,028
Due within one year	709,093
Due after one year	<u>\$ 1,532,537</u>
Total liabilities	
NET POSITION	\$ 3,580,539
Net investment in capital assets	170,046
Restricted: debt service	516,040
Unrestricted	<u>\$ 4,266,625</u>
Total net position	

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

Hays County Emergency Services District #3
Statement of Activities
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating Grants	Revenue and Change
		Services	and Contributions	in Net Position
				Governmental
				Activities
Governmental activities	\$ 1,105,004	\$ 264,355	\$ 17,703	\$ (822,946)
Interest expense	8,923	-	-	(8,923)
Total primary government	<u>\$ 1,113,927</u>	<u>\$ 264,355</u>	<u>\$ 17,703</u>	<u>\$ (831,869)</u>
General Revenues:				
				741,399
				732,156
				2,125
				2,852
			Total General Revenues	<u>1,478,532</u>
				646,663
			Change in Position	
			Net Position - Beginning of Year	<u>3,619,962</u>
			Net Position - End of Year	<u>\$ 4,266,625</u>

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

BASIC FINANCIAL STATEMENTS
(Governmental Fund)

Hays County Emergency Services District #3
Balance Sheet
December 31, 2014

	General Fund	Debt Service Fund	Total Governmental Fund
ASSETS			
Cash	\$ 448,688	\$ 294,515	\$ 743,203
Receivables			394,816
Property taxes	394,816	-	117,152
Sales taxes	117,152	-	46,473
Texas Fire Academy fees	46,473	-	-
Due from (to) other fund	3,140	(3,140)	58,556
Prepaid assets	58,556	-	6,302
Inventory and other assets	6,302	-	1,366,502
Total assets	<u>\$ 1,075,127</u>	<u>\$ 291,375</u>	<u>\$ 1,366,502</u>
LIABILITIES			
Accounts payable	\$ 548,415	\$ -	\$ 548,415
Accrued liabilities	12,055	-	12,055
Total liabilities	<u>560,470</u>	<u>-</u>	<u>560,470</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue - property taxes	<u>51,904</u>	<u>-</u>	<u>51,904</u>
Fund Balance			
Nonspendable	64,858	-	64,858
Restricted - debt service	-	170,046	170,046
Committed	68,485	-	68,485
Unassigned	329,410	121,329	450,739
Total fund balance	<u>462,753</u>	<u>291,375</u>	<u>754,128</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,075,127</u>	<u>\$ 291,375</u>	<u>\$ 1,366,502</u>

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

Hays County Emergency Services District #3
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2014

Total fund balance (deficit) – governmental funds \$ 754,128
Amounts reported for governmental activities in the statement
of net position are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the fund. These
assets consist of:

Land	\$ 95,966	
Trucks and equipment	2,481,884	
Stations	1,006,176	
Furniture and fixtures	28,589	
Computers and software	176,611	
Equipment	909,860	
Work in progress	2,206,402	
Accumulated depreciation	<u>(2,472,828)</u>	
Total capital assets		4,432,660

Long-term debt is not due and payable in the current period and,
therefore, is not reported as a liability in the fund financial statement. (852,121)

Some liabilities (such as Texas Fire Academy deposits, compensated absences
and accrued interest payable) are not due and payable in the current period
and, therefore, are not reported in the fund. (119,946)

Some revenues in the governmental fund are deferred because they are
not collected within the prescribed time period after year end. On the
accrual basis, however, those revenues would be recognized, regardless
of when they are collected. 51,904

Net assets of governmental activities (page 8) \$ 4,266,625

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

Hays County Emergency Services District #3
Statement of Revenues, Expenditures and Changes in
Governmental Funds
for the Year Ended December 31, 2014

	General Fund	Debt Service Fund	Total Governmental Fund
Revenues:			
Tax revenues	\$ 1,468,231	\$ -	\$ 1,468,231
Grant and contribution income	17,703	-	17,703
Charges for services	253,776	-	253,776
Interest	1,529	596	2,125
Other income	2,851	-	2,851
Total Revenues	<u>1,744,090</u>	<u>596</u>	<u>1,744,686</u>
Expenditures:			
Apparatus	57,618	-	57,618
Communications	51,522	-	51,522
General and administrative	111,629	-	111,629
Contractual services	36,087	-	36,087
Personnel (including benefits)	350,730	-	350,730
Training	24,440	-	24,440
Texas Fire Academy	92,610	-	92,610
Station repairs, maintenance and supplies	71,532	-	71,532
Debt service - principal	48,000	-	48,000
Debt service - interest	6,415	3,140	9,555
Capital outlay	1,939,222	-	1,939,222
Total Expenditures	<u>2,789,805</u>	<u>3,140</u>	<u>2,792,945</u>
Excess of Revenues Over Expenditures	<u>(1,045,715)</u>	<u>(2,544)</u>	<u>(1,048,259)</u>
Other Financing Sources (Uses)			
Loan proceeds	708,121	-	708,121
Transfers	(293,919)	293,919	-
Total other financing sources (uses)	414,202	293,919	708,121
Net Change in Fund Balance	(631,513)	291,375	(340,138)
Fund Balance, Beginning of Year	<u>1,094,266</u>	<u>-</u>	<u>1,094,266</u>
Fund Balance, End of Year	<u>\$ 462,753</u>	<u>\$ 291,375</u>	<u>\$ 754,128</u>

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

**Hays County Emergency Services District #3
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Governmental Funds
to the Statement of Activities
for the Year Ended December 31, 2014**

Net change in fund balance – total governmental fund \$ (340,138)

Amounts reported for governmental activities in the statement of activities (page 9) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were higher than depreciation in the current period. 1,626,549

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental fund. This is the next change from the previous period. 15,903

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the next change from the previous period. 3,838

Repayment of principal on debt is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position. 48,000

Proceeds from debt is an other source of funds in the governmental funds, but the proceeds increases long-term debt in the statement of net position. (708,121)

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expense is reported when due. This is the net change from the previous period. 632

Change in net position of governmental activities (page 9) \$ 646,663

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

NOTES TO FINANCIAL STATEMENTS

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

Note 1- Summary of Significant Accounting Policies

The accounting policies of the Hays County Emergency Services District #3 (the District) conform to generally accepted accounting principles (GAAP) in the United States of America, applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for established governmental accounting and financial reporting principles. The more significant of the District's policies are described below.

A. The Reporting Entity

The District is a governmental unit of the state of Texas that was formed in July 1998. The District's role is to collect taxes from the citizens of its respective district and utilize those collections for emergency services. Those services include fire and allied services, first responder, water rescue, and provide a training academy. The Commissioners of the District are an appointed Board by the Hays County Commissioners to oversee and guide the various activities of the District.

The District has adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. Using these criteria, the District has no component units. The District is included in the basic financial statements of Hays County as a component unit.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e. the *Statement of Net Position* and the *Statement of Activities*) report information on all of the non-fiduciary activities of the District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods or services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are recorded when

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within thirty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The District reports the following major governmental funds:

General Fund - The general fund is the District's primary operating fund. It is used to account for all financial resources of the general government 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, as required by the loan agreement dated May 23, 2014, associated with the construction of the new fire station.

D. Cash and Cash Equivalents

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and so near maturity that there is not significant risk of changes in value due to changes in interest rates.

E. Accounts Receivable

Accounts receivable consists of property tax, sales tax and amounts due from participants of the Texas Fire Academy (TFA), due as of December 31, 2014. The District does not record an allowance for uncollectable accounts, supported by historical collections.

F. Inventories and Prepaid Items

Inventories of consumable supplies are valued at cost using the first in/first out method. The costs of government fund inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items in both the government-wide and fund financial statements. In the fund financial statements this asset is offset by a reservation of fund balance which indicates they do not represent "available spendable

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

resources.” The costs of prepaid items are recorded as expenditures when consumed rather than when purchased.

G. Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) at the time of acquisition and updated for additions and retirements during the year. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis. Estimated useful lives are as follows:

Furniture and Fixtures	5 Years
Fire Trucks/Equipment	10 Years
Stations	30 Years

Prior to December 2003, the District had not recorded depreciation.

H. Texas Fire Academy Deposits

Texas Fire Academy deposits consist of payments made by participants in advance of the applicable training program.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue-property taxes*, is reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the periods the amounts become available.

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

J. Equity Classifications

In the government-wide financial statements, equity is shown as net position and classified into three Components:

Net investment in capital assets – Capital assets, net of accumulated depreciation, reduced by the outstanding balance of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – Consists of assets with constraints placed on the use either by: 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Unrestricted – All other net assets that do not meet the definition of "net investment in capital assets" or "restricted".

The District reports governmental fund balances by the five following classification:

Nonspendable – Amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

Restricted – Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes, imposed by formal action of the District's highest level of decision making authority. In the case of the District, it is the District Board and the formal action would be an ordinance to modify or rescind the commitment.

Assigned – Amounts constrained by District management's intent to be used for specific purposes but not formally restricted by external resources or committed by the District Board.

Unassigned – Amount of the remaining fund balance not in any of the other classifications.

For the classification of fund balances, the District considers restricted amounts to have been spent first when an expenditure is incurred for the purpose for which restricted and unrestricted fund balance is available. Expenditures are to be spent from restricted fund balances first, followed by committed, assigned, and lastly unassigned fund balance.

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

K. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimations and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

Note 2 – Cash Deposits

Legal and Contractual Provisions, Governing Deposits and Investments

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At December 31, 2014, the carrying amount of the District's cash deposits was \$743,247 and the bank balance was \$745,173.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in; (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, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act.

The District did not have invested funds at December 31, 2014.

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

Policies, Governing Deposits and Investments

In compliance with the Public Funds Investments Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District was not exposed to custodial credit risk since its deposits at year-end and during the year ended December 31, 2014, were covered by depository insurance or by pledged collateral held by the District's agent bank in the District's name.

Custodial Credit Risk – Investments: This 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. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, investment policies of the District's investment pools allow the portfolio's investment manager to only invest in obligations of the U.S. Government and its agencies; repurchase agreements; and no-load AAAm money market mutual funds registered with the SEC.

Note 3 – Property Taxes

The District has the authority to levy a tax to a maximum of \$.10 per \$100 of value. Property taxes are levied each October 1 on the assessed valuation of all taxable property in the District. The tax rate for October 1, 2014, levy remained unchanged from the previous year at \$.10 per \$100. Taxes are due on receipt of the bill and are delinquent if not paid before February 1 of the year following the levy. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Taxes are billed and collected by the Hays County Tax Assessor.

Note 4 – Sales Tax Revenue

As of the May 10, 2008, election, the District has been approved to receive one and a half cent sales tax revenue within the Hays County ESD #3 district. On the May 11, 2013, election, the District was approved to receive an additional ½ % local sales and use tax, effective October 1, 2013, for a portion of the city of Wimberley that does not include the Wimberley Library District.

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

Note 5 – Capital Assets

The following is a summary of changes in Capital Assets for the Year:

	Balance 12/31/2013	Additions	Retirements	Balance 12/31/2014
Capital assets not being depreciated:				
Land	\$ 95,966	-	-	\$ 95,966
Work-in-progress	439,305	1,767,097	-	2,206,402
Total	<u>535,271</u>	<u>1,767,097</u>	<u>-</u>	<u>2,302,368</u>
Capital assets being depreciated:				
Fire stations	1,006,176	-	-	1,006,176
Equipment	737,805	159,763	(4,928)	892,640
Trucks and vehicles	2,449,871	1,152	-	2,451,023
Boats and trailers	30,861	-	-	30,861
Furniture and fixtures	24,179	4,410	-	28,589
Computers and software	169,810	6,800	-	176,610
Medical and training equipment	17,221	-	-	17,221
Total	<u>4,435,923</u>	<u>172,125</u>	<u>(4,928)</u>	<u>4,603,120</u>
Total capital assets	4,971,194	1,939,222	(4,928)	6,905,488
Less: accumulated depreciation	<u>(2,165,042)</u>	<u>(312,673)</u>	<u>4,887</u>	<u>(2,472,828)</u>
Net capital assets	<u>\$ 2,806,152</u>	<u>\$ 1,626,549</u>	<u>\$ (41)</u>	<u>\$ 4,432,660</u>

Depreciation was charged to functions within the primary government as follows:

General Administration	\$ 305,299
Texas Fire Academy	<u>7,374</u>
Total	<u>\$ 312,673</u>

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

Note 6 – Debt

The following is a summary of debt for the year ended December 31, 2014:

Note Payable:	Origination Date	Maturity Date	Interest Rate	Balance 12/31/2013	Additions	Retirements	Balance 12/31/2014
2011 Pierce Tanker	12/21/2011	2/15/2017	3.25%	\$ 192,000	\$ -	\$ (48,000)	\$ 144,000
New station	5/23/2014	5/16/2029	2.95%	-	708,121	-	708,121
				<u>\$ 192,000</u>	<u>\$ 708,121</u>	<u>\$ (48,000)</u>	<u>\$ 852,121</u>

Future Debt Service Requirements:

Year	Amortization of Long Term Debt		Total
	Principal	Interest	
2015	\$ 143,028	\$ 79,698	\$ 222,726
2016	214,754	127,874	342,628
2017	219,740	121,328	341,068
2018	176,875	114,632	291,507
2019	182,164	109,343	291,507
2020-2024	995,860	461,679	1,457,539
2025-2029	1,153,926	303,612	1,457,538
2030-2034	1,337,082	120,457	1,457,539
2035	120,571	891	121,462
Total	<u>\$ 4,544,000</u>	<u>\$ 1,439,514</u>	<u>\$ 5,983,514</u>

On December 21, 2011, the District entered into a loan agreement with Sage Capital Bank for the purchase of a 2011 Pierce Tanker, of \$240,000. The loan matures on February 15, 2017, and carries an interest rate of 3.25%. For the year ended December 31, 2014, principal payments of \$48,000 were made and interest of \$6,227 was paid.

On May 23, 2014, the District entered into a loan agreement with Sage National Bank for the construction of a new fire station on Hunter Road, of \$4,400,000. The loan matures on May 16, 2029, and carries an interest rate of 2.95%. For the year ended December 31, 2014, draws totaled \$708,121 and interest of \$3,140 was paid. The loan is secured by the assignment of Ad Valorem Taxes and required the establishment of a debt service fund equivalent to the note payment due during each fiscal year. As of the year ended December 31, 2014, the District was in compliance with the loan agreement.

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

On October 1, 2014, the District renewed its Line of Credit Loan with Sage National Bank, of \$50,000, for working capital requirements. The loan matures on October 1, 2015, and carries an interest rate of 5.00%. The loan is secured by two 2000 Pierce fire trucks. For the year ended December 31, 2014, no borrowings were incurred against this loan.

Note 7 – Compensated Absences

The District accrues a liability for compensated absences which meet the following criteria:

- a) The District's obligation relating to employees' rights to receive compensation for future absences is attributable to the employees' services already rendered.
- b) The obligation relates to rights that vest or accumulate.
- c) Payment of the compensation is probable.
- d) The amount can be reasonably estimated.

In accordance with the above criteria, the District has accrued a liability of \$2,552, for compensated absences (vacation payable), which has been earned but not taken by employees in the government-wide financial statements.

Note 8 – Related Party Transactions

The District utilizes an outside source for some of the accounting duties such as overseeing the full time administrative assistant and other related bookkeeping duties. This individual also serves as the Secretary/Treasurer of the District and additionally is an authorized check signer on the District's bank accounts. The total amount paid during 2014 was \$31,548. The District's legal counsel prepared an Affidavit which was signed by the related party individual on July, 30, 2008, which reflects it is legal for this individual to act in the capacity of an ESD Commissioner and a contracted consultant.

Note 9 – Contracts and Commitments

The District is in the process of constructing a new fire station amounting to approximately \$5,922,574. Contract commitments with an architect and a construction company amount to \$5,577,974. Payments of \$2,060,588, have been made as of December 31, 2014, which leaves \$3,517,386, remaining to be incurred and paid.

Note 10 – Transfers

During the year, the General Fund transferred \$293,919, to establish the Debt Service Fund, as required by the loan agreement dated May 23, 2014, with Sage National Bank, (see Note 6).

Hays County Emergency Services District #3
Notes to the Financial Statements
for the Year Ending December 31, 2014

Note 11 – Risk Management

The District is exposed to various risks of loss including general liability, property damage, and worker's compensation. The District insures against risk through participation in the Texas Municipal League Intergovernmental Risk Pool, for worker's compensation and American Alternative Insurance Corporation for its general liability and property damage.

Note 12 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition of disclosure through May 15, 2015, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Hays County Emergency Services District # 3
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>				
Tax revenue	\$ 1,230,620	\$ 1,420,852	\$ 1,468,231	\$ 47,379
Charges for services	217,600	267,600	253,776	(13,824)
Grant income	8,206	16,766	17,703	937
Interest income	1,000	2,300	2,125	(175)
Other income	1,000	1,000	2,851	1,851
Total General Revenue	<u>1,458,426</u>	<u>1,708,518</u>	<u>1,744,686</u>	<u>36,168</u>
<u>EXPENDITURES</u>				
Apparatus	101,018	59,095	57,618	1,477
Communications	46,906	45,420	51,522	(6,102)
General and administrative	121,676	131,731	111,629	20,102
Contractual services	-	40,000	36,087	3,913
Personnel (including benefits)	395,445	365,663	350,730	14,933
Training	65,620	62,775	24,440	38,335
Texas Fire Academy	82,675	99,920	92,610	7,310
Station repairs, maintenance and supplies	64,525	57,236	71,532	(14,296)
Debt service - principal	48,000	48,000	48,000	-
Debt service - interest	57,047	8,924	9,555	(631)
Capital outlay	280,000	144,427	1,939,222	(1,794,795)
Reserves	245,514	695,327	-	695,327
Total Expenses	<u>1,508,426</u>	<u>1,758,518</u>	<u>2,792,945</u>	<u>(1,034,427)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>(1,048,259)</u>	<u>(998,259)</u>
Other Financing Sources (Uses)				
Loan proceeds	50,000	50,000	708,121	(658,121)
	<u>50,000</u>	<u>50,000</u>	<u>708,121</u>	<u>(658,121)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>(340,138)</u>	<u>(340,138)</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

WILLIAM A. GRIMSLEY, CPA

Certified Public Accountant

310 White Oak Way

KILLEEN, TX 76549

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
Hays County Emergency Services District #3
San Marcos, TX 78666

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hays County Emergency Services District #3, (the District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated May 15, 2015.

Internal Control Over Financial Reporting

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

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 reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those in charge of governance.

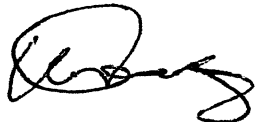
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations,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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



WILLIAM A. GRIMSLEY, CPA
Killeen, TX
May 15, 2015