

HAYS COUNTY EMERGENCY SERVICES
DISTRICT #3
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

WILLIAMGRIMSLEY
Certified Public Accountant

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

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WILLIAMGRIMSLEY

CERTIFIED PUBLIC ACCOUNTANT

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 and each major fund of Hays County Emergency Services District #3 (the District), as of and for the year ended December 31, 2015, 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 opinion.

Opinion

In my 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

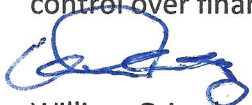
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and page 25, respectively, 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 23, 2016, 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 my 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 Grimsley, CPA, CGMA
Killeen, Texas
May 23, 2016

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 Services District #3's (the District) financial performance provides an overview and analysis of the District's financial activities for the year ended December 31, 2015. Please read it in conjunction with the Independent Auditor's Report, the accompanying basic financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the year by \$4,805,214 (net position). Of this amount, \$344,517 is unrestricted and may be used to meet the District's future obligations.
- During the year the District's expenses of \$1,404,099, as compared to revenues of \$1,942,688, resulted in an increase in net position of \$538,589.
- The District's capital assets totaled \$7,978,660, net of accumulated depreciation of \$2,971,513. This net increase of \$3,545,850, was primarily the result of the construction of the Hunter Road station.
- Debt at year-end of \$4,027,070 increased by \$3,174,949, the result of \$3,331,039 in loan draws for the Hunter Road station, off-set by \$156,090 in total debt principal 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.

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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.

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.

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. The following is a summary of the District's net position as of December 31, 2015. Net assets exceed liabilities by \$4,805,214, however a large portion of the District's net position reflects its investment in capital assets less 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.

NET POSITION

	2015	2014	\$ Change	% Change
Current and other assets	\$ 1,362,329	\$ 1,366,502	\$ (4,173)	-0.3%
Capital assets, net	7,978,510	4,432,660	3,545,850	80.0%
Total assets	<u>9,340,839</u>	<u>5,799,162</u>	<u>3,541,677</u>	<u>61.1%</u>
Current liabilities	944,053	680,416	263,637	38.7%
Long-term liabilities	4,027,070	852,121	3,174,949	372.6%
Total liabilities	<u>4,971,123</u>	<u>1,532,537</u>	<u>3,438,586</u>	<u>224.4%</u>
Net position:				
Net investment in capital assets	4,169,189	3,580,539	588,650	16.4%
Restricted	291,508	170,046	121,462	100.0%
Unrestricted	344,517	516,040	(171,523)	-33.2%
Total net position	<u>\$ 4,805,214</u>	<u>\$ 4,266,625</u>	<u>\$ 538,589</u>	<u>12.6%</u>

Changes in Net Position. The following is a summary of the District's operations for the fiscal year 2015. Revenues totaled \$1,942,688 for the year, an increase of \$182,098 or 10.3%. Property and sales taxes are the largest components of revenue, accounting for 81.8 % of the total. Charges for services increased by \$64,043 or 24.2%, primarily the result of increased enrollments in the Texas Fire Academy. Expenses totaled \$1,404,099, an increase of \$290,172 or 26.0%, primarily in correlation with the Texas Fire Academy enrollment increase and interest expense related to the Hunter Road Station financing.

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN NET POSITION

	2015	2014	\$ Change	% Change
Program Revenues:				
Charges for services	\$ 328,398	\$ 264,355	\$ 64,043	24.2%
Grant and contributions income	15,589	17,703	(2,114)	-11.9%
General Revenues:				
Tax revenues	1,589,006	1,473,555	115,451	7.8%
Interest income	1,830	2,125	(295)	-13.9%
Other income	7,865	2,852	5,013	175.8%
Total revenues	<u>1,942,688</u>	<u>1,760,590</u>	<u>182,098</u>	<u>10.3%</u>
Expenses:				
General government	1,314,733	1,105,004	209,729	19.0%
Interest on long-term debt	89,366	8,923	80,443	901.5%
Total expenses	<u>1,404,099</u>	<u>1,113,927</u>	<u>290,172</u>	<u>26.0%</u>
Change in net position	<u>\$ 538,589</u>	<u>\$ 646,663</u>	<u>\$ (108,074)</u>	<u>-16.7%</u>

FINANCIAL ANALYSIS 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 \$844,101, (an increase from the prior year of \$89,973), primarily the result of revenue increase in taxes and the Texas Fire Academy.

Budget Highlights. The District prepares its budget on a government-wide (full accrual) GAAP basis. Actual revenues were \$88,618 higher than the budget. Actual expenditures were \$98,791 lower than the budget, reflecting a net favorable variance of \$187,409 in excess revenues over expenditures. This favorable variance in revenue was primarily the result of a \$108,771 increase in tax revenues to budget, off-set by \$19,216 lower than budgeted other income. The favorable variance in expenses primarily came from lower than budgeted personnel costs and depreciation expense. More detail is presented in the required supplementary information section on page 25.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District's investment in capital assets totaled \$7,978,510, net of accumulated depreciation, an increase of \$3,545,850 to the prior year. This year's major addition was the Hunter Road Station.

More detailed information about the District's capital assets is presented in the Notes to the Financial Statements on page 21.

Debt

At year-end, the District's long-term debt was \$4,027,070, an increase over the prior year of \$3,174,949. This increase was the net result of additional financing for the Hunter Road Station, reduced by principal payments made on total existing debt. More detailed information about the District's long-term debt is presented in the Notes to the Financial Statements starting on page 22.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's appointed officials considered many factors when setting the fiscal year 2016 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 government-wide \$1,932,065 budget, reflecting a surplus of \$210,595, for fiscal year 2016. It will be funded primarily through property and sales taxes.

CONTACTING THE DISTRICT'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, 3528 Hunter Road, San Marcos, Texas 78666.

**BASIC FINANCIAL STATEMENTS
(GOVERNMENT – WIDE)**

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

Statement of Net Position

December 31, 2015

	Total Governmental Activities
ASSETS:	
Cash	\$ 663,946
Receivables	
Property taxes	431,458
Sales taxes & other	149,374
Texas Fire Academy fees	30,315
Prepaid assets	77,625
Inventory and other assets	9,611
Capital assets:	
Land	96,450
Trucks, vehicles and boats	2,486,109
Stations	6,850,354
Furniture and fixtures	143,010
Computers and software	192,720
Equipment	1,001,380
Less: accumulated depreciation	(2,791,513)
Total assets	\$ 9,340,839
LIABILITIES:	
Accounts payable	\$ 381,018
Accrued liabilities	18,576
Accrued interest payable	7,927
Texas Fire Academy participant's deposits	101,034
Noncurrent liabilities:	
Due within one year	217,749
Due after one year	3,809,321
Total liabilities	\$ 4,535,625
NET POSITION:	
Net investment in capital assets	\$ 4,169,189
Restricted: debt service	291,508
Unrestricted	344,517
Total net position	\$ 4,805,214

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, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities	\$ 1,314,733	\$ 328,398	\$ 15,589	\$ (970,746)
Interest expense	89,366	-	-	(89,366)
Total primary government	<u>\$ 1,404,099</u>	<u>\$ 328,398</u>	<u>\$ 15,589</u>	<u>\$ (1,060,112)</u>
General Revenues:				
				799,135
				789,871
				1,830
				7,865
			Total General Revenues	<u>1,598,701</u>
		Change in Net Position		538,589
		Net Position - Beginning of Year		<u>4,266,625</u>
		Net Position - End of Year		<u>\$ 4,805,214</u>

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

**BASIC FINANCIAL STATEMENTS
(GOVERNMENTAL FUNDS)**

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Balance Sheet - Governmental Funds

December 31, 2015

	General Fund	Debt Service Fund	Total Governmental Fund
ASSETS			
Cash	\$ 368,694	\$ 295,252	\$ 663,946
Receivables			
Property taxes	431,458	-	431,458
Sales taxes	149,374	-	149,374
Texas Fire Academy fees	30,315	-	30,315
Due from (to) other fund	3,140	(3,140)	-
Prepaid assets	77,625	-	77,625
Inventory and other assets	9,611	-	9,611
Total assets	<u><u>\$ 1,070,217</u></u>	<u><u>\$ 292,112</u></u>	<u><u>\$ 1,362,329</u></u>
LIABILITIES			
Accounts payable	\$ 381,018	\$ -	\$ 381,018
Accrued liabilities	18,048	-	18,048
Total liabilities	<u>399,066</u>	<u>-</u>	<u>399,066</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue - property taxes	119,162	-	119,162
Fund Balance			
Nonspendable	87,236	-	87,236
Restricted - debt service	-	291,508	291,508
Committed	-	-	-
Unassigned	464,753	604	465,357
Total fund balance	<u>551,989</u>	<u>292,112</u>	<u>844,101</u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 1,070,217</u></u>	<u><u>\$ 292,112</u></u>	<u><u>\$ 1,362,329</u></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, 2015

Total fund balance (deficit) – governmental funds \$ 844,101

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	\$ 96,450	
Trucks and equipment	2,486,109	
Stations	6,850,354	
Furniture and fixtures	143,010	
Computers and software	192,720	
Equipment	1,001,380	
Accumulated depreciation	<u>(2,791,513)</u>	
Total capital assets		7,978,510

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. (4,027,070)

Some liabilities (such as Texas Fire Academy deposits, and accrued
interest payable) are not due and payable in the current period and,
therefore, are not reported in the fund. (109,489)

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. 119,162

Net assets of governmental activities (page 8) \$ 4,805,214

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

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended December 31, 2015

	General Fund	Debt Service Fund	Total Governmental Fund
Revenues:			
Tax revenues	\$ 1,521,748	\$ -	\$ 1,521,748
Grant and contribution income	15,589	-	15,589
Charges for services	339,942	-	339,942
Interest	1,093	737	1,830
Other income	7,865	-	7,865
Total Revenues	<u>1,886,237</u>	<u>737</u>	<u>1,886,974</u>
Expenditures:			
Apparatus	45,909	-	45,909
Communications	66,230	-	66,230
General and administrative	120,520	-	120,520
Contractual services	70,151	-	70,151
Personnel (including benefits)	438,438	-	438,438
Training	35,712	-	35,712
Texas Fire Academy	102,031	-	102,031
Station repairs, maintenance and supplies	89,561	-	89,561
Debt service - principal	156,090	-	156,090
Debt service - interest	86,256	-	86,256
Capital outlay	3,917,142	-	3,917,142
Total Expenditures	<u>5,128,040</u>	<u>-</u>	<u>5,128,040</u>
Excess of Revenues Over Expenditures	<u>(3,241,803)</u>	<u>737</u>	<u>(3,241,066)</u>
Other Financing Sources (Uses)			
Loan proceeds	3,331,039	-	3,331,039
Total other financing sources (uses)	<u>3,331,039</u>	<u>-</u>	<u>3,331,039</u>
Net Change in Fund Balance	89,236	737	89,973
Fund Balance, Beginning of Year	<u>462,753</u>	<u>291,375</u>	<u>754,128</u>
Fund Balance, End of Year	<u><u>\$ 551,989</u></u>	<u><u>\$ 292,112</u></u>	<u><u>\$ 844,101</u></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, 2015

Net change in fund balance – total governmental fund	\$ 89,973
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.	3,572,985
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 net change from the previous period.	55,714
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 net change from the previous period.	(2,024)
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.	156,090
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.	(3,331,039)
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.	(3,110)
Change in net position of governmental activities (page 9)	<u><u>\$ 538,589</u></u>

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 Ended December 31, 2015

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 the provision of 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, Texas 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

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

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 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 Hunter Road Station.

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

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), as of December 31, 2015. 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 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

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

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.

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) imposed law through constitutional provisions or enabling legislation. When both restricted and

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

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's Board of Commissioners, 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's Board of Commissioners.

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 Ended December 31, 2015

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-today 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, 2015, the carrying amount of the District's cash deposits was \$663,947 and the bank balance was \$665,130.

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) banker's 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, 2015.

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

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, 2015, 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: This 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 assessed property values. Property taxes are levied each October 1 on the assessed valuation of all taxable property within the District's boundaries. The tax rate for the October 1, 2015, levy was \$.10 per \$100 of appraised value. 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 assessed, billed and collected by the Hays County Tax Assessor.

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

Note 4 – Sales Tax Revenue

As of the May 10, 2008, election, the District was approved to receive a one and a half cent (\$.015) sales tax revenue within the District's applicable boundaries. On the May 11, 2013, election, the District was approved to receive an additional half cent (\$.005) 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.

Note 5 – Capital Assets

The following is a summary of changes in capital assets for the year:

	Balance 12/31/2014	Additions	Retirements	Balance 12/31/2015
Capital assets not being depreciated:				
Land	\$ 95,966	\$ 484	\$ -	\$ 96,450
Work-in-process	2,206,402	-	(2,206,402)	-
Total	2,302,368	484	(2,206,402)	96,450
Capital assets being depreciated:				
Stations	1,006,176	5,844,178	-	6,850,354
Equipment	892,639	114,502	(22,982)	984,159
Trucks and vehicles	2,451,023	4,225	-	2,455,248
Boats and trailers	30,861	-	-	30,861
Furniture and fixtures	28,589	118,236	(3,815)	143,010
Computers and software	176,610	19,345	(3,235)	192,720
Medical and training equipment	17,221	-	-	17,221
Total capital assets being depreciated	4,603,119	6,100,486	(30,032)	10,673,573
Total capital assets	6,905,487	6,100,970	(2,236,434)	10,770,023
Less: accumulated depreciation	(2,472,827)	(344,157)	25,471	(2,791,513)
Net capital assets	\$ 4,432,660	\$ 5,756,813	\$ (2,210,963)	\$ 7,978,510

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

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

General Administration	\$ 338,401
Texas Fire Academy	5,756
Total	<u>\$ 344,157</u>

Note 6 – Debt

The following is a summary of changes in debt for the year:

	Origination	Maturity	Interest	Balance			Balance
Notes Payable:	Date	Date	Rate	12/31/2014	Additions	Retirements	12/31/2015
2011 Pierce Tanker	12/21/2011	2/15/2017	3.25%	\$ 144,000	\$ -	\$ (48,000)	\$ 96,000
Hunter Road Station	5/23/2014	5/16/2029	2.95%	708,121	3,331,039	(108,090)	3,931,070
				<u>\$ 852,121</u>	<u>\$ 3,331,039</u>	<u>\$ (156,090)</u>	<u>\$ 4,027,070</u>

At December 31, 2015 future debt service requirements are as follows:

2011 Pierce Tanker note:

Year	Principal	Interest	Total
2016	\$ 48,000	\$ 3,120	\$ 51,120
2017	48,000	1,560	49,560
Total	<u>\$ 96,000</u>	<u>\$ 4,680</u>	<u>\$ 100,680</u>

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

Hunter Road Station note: Based on the total amount of the note at 2.95%, with a balloon payment on May 16, 2029.

Year:	Principal	Interest	Total
2016	\$ 163,912	\$ 127,596	\$ 291,508
2017	168,813	122,695	291,508
2018	173,861	117,647	291,508
2019	179,060	112,448	291,508
2020	184,414	107,094	291,508
2021-2025	1,008,161	449,378	1,457,539
2026-2029	2,521,779	216,508	2,738,287
Total	<u>\$ 4,400,000</u>	<u>\$ 1,253,366</u>	<u>\$ 5,653,366</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, 2015, principal payments of \$48,000 were made and interest of \$4,675 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, in the amount of \$4,400,000. The loan matures on May 16, 2029, and carries an interest rate of 2.95%. Monthly payments of \$24,292 began on June 15, 2015, based on an amortization period of twenty years with a balloon payment of the balance on May 16, 2029. For the period ended December 31, 2015, draws totaled \$3,931,070, net of \$108,090 in principal payments. Interest of \$81,580 was paid for the year ended December 31, 2015. The loan is secured by the assignment of Ad Valorem Taxes and required the establishment of a debt service fund equivalent to the note payments due during each fiscal year. Accordingly, \$291,508 is reported as restricted assets in the statement of net position and the governmental balance sheet. As of the year ended December 31, 2015, the District was in compliance with the loan agreement.

On October 1, 2015, the District renewed its Line of Credit Loan with Sage National Bank, of \$50,000. The loan matures on October 1, 2016, and carries an interest rate of 5.00%. The loan is secured by two 2000 Pierce fire trucks. For the year ended December 31, 2015, no borrowings were incurred against this loan.

HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

Notes to the Financial Statements

For the Year Ended December 31, 2015

Note 7 – Related Party Transactions

The District utilizes a contract consultant 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 amount paid for the year ended December 31, 2015, was \$39,548. 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 a Commissioner and a contract consultant.

Note 8 – 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 9 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition of disclosure through May 23, 2016, 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 to Actual - GAAP Basis

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>				
Tax revenue	\$ 1,323,751	\$ 1,480,235	\$ 1,589,006	\$ 108,771
Charges for services	250,000	329,800	328,398	(1,402)
Grant income	22,900	15,004	15,589	585
Interest income	1,475	1,950	1,830	(120)
Other income	14,000	27,081	7,865	(19,216)
Total General Revenue	<u>1,612,126</u>	<u>1,854,070</u>	<u>1,942,688</u>	<u>88,618</u>
<u>EXPENDITURES</u>				
Apparatus	72,957	47,840	45,909	1,931
Communications	49,069	62,323	66,230	(3,907)
General and administrative	131,091	125,855	120,520	5,335
Contractual services	44,370	69,000	70,151	(1,151)
Personnel (including benefits)	411,554	475,568	440,462	35,106
Training	38,670	38,550	35,712	2,838
Texas Fire Academy	98,945	115,660	102,031	13,629
Station repairs, maintenance and supplies	94,249	100,649	89,561	11,088
Depreciation	430,000	381,000	344,157	36,843
Debit service - interest	88,652	86,445	89,366	(2,921)
Total Expenses	<u>1,459,557</u>	<u>1,502,890</u>	<u>1,404,099</u>	<u>98,791</u>
Excess (Deficit) of Revenues Over Expenditures	<u>\$ 152,569</u>	<u>\$ 351,180</u>	<u>\$ 538,589</u>	<u>\$ 187,409</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

WILLIAM GRIMSLEY

Certified Public Accountant

May 23, 2016

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

I have audited the financial statements of the governmental activities and each major fund of Hays County Emergency Services District #3 (the District), for the year ended December 31, 2015. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated November 2, 2015. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending December 31, 2015. I noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the District's financial statements was:

Management's estimate of the useful lives of capitalized assets is based on the type and life expectancy of the capitalize asset, as well as, GAAP guidance. I evaluated the key factors and assumptions used to develop the lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

I have requested certain representations from management that are included in the management representation letter dated May 23, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

I applied certain limited procedures to the Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget to Actual- GAAP Basis, which is required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,



William Grimsley, CPA, CGMA