

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

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

DECEMBER 31, 2013

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

We 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hays County Emergency Services District #3, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(H) to the financial statements, in 2013 the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Our opinions are not modified with respect to this matter.

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 3–6 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2014, on our consideration of Hays County Emergency Services District #3's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Alton D. Thiele, P.C.



Belton, Texas
May 15, 2014

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, 2013. Please read it in conjunction with the Independent Auditor's Report on pages 1-2, and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The District merged with South Hays Fire Department, Inc. on October 1, 2013.
- The assets of the District exceeded its liabilities at the close of the year by \$3,619,962 (net position).
- During the year the District had total expenses of \$1,045,181 compared to revenues of \$1,513,940, resulting in an increase in its net position by \$468,759.
- The District's investment in capital assets totaled \$2,806,152, net of accumulated depreciation of \$2,165,042.
- Total debt at year-end of \$192,000 reflects a reduction of \$125,542 compared to the prior year.

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, and liabilities, with the difference between the two 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 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 revenue or expenses that are appropriate 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 7- 8 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

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

demonstrate compliance with finance-related legal requirements. The District only has 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 on spendable resources available at the end 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 for governmental funds 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between government funds and governmental activities.

The District maintains one governmental fund, the General Fund. The basic governmental fund financial statements can be found on pages 9-12 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 13.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. The District's assets exceed liabilities by \$3,619,962 as of December 31, 2013. 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**

	2013	2012	\$ Change	% Change
Current and other assets	\$ 1,227,311	\$ 969,512	\$ 257,799	26.6%
Capital assets, net	2,806,152	2,502,496	303,656	12.1%
Total assets	4,033,463	3,472,008	561,455	16.2%
Current liabilities	221,501	100,738	120,763	119.9%
Long-term liabilities	192,000	317,542	(125,542)	-39.5%
Total liabilities	413,501	418,280	(4,779)	-1.1%
Net position:				
Net investment in capital assets	2,614,152	2,184,954	429,198	19.6%
Unrestricted	1,005,810	868,774	137,036	15.8%
Total net position	\$ 3,619,962	\$ 3,053,728	\$ 566,234	18.5%

Changes in Net Position. Revenues totaled \$1,513,940 for the year, a decrease of \$119,610 from the prior year. The decrease came primarily from a reduction in property tax, offset partially by charges for services. Expenses totaled \$1,045,181 for the year, a decrease of \$18,650. The decrease was a combination of lower general government and interest expense of \$8,711 and \$9,939, respectively. (See Table II).

**Table II
CHANGES IN NET POSITION**

	2013	2012	\$ Change	% Change
Program Revenues:				
Charges for services	\$ 65,961	\$ -	\$ 65,961	100.0%
Grant income	17,406	74,895	(57,489)	-76.8%
General Revenues:				
Tax revenue	1,418,338	1,555,981	(137,643)	-8.8%
Interest income	2,377	2,674	(297)	-11.1%
Other income	9,858	-	9,858	100.0%
Total revenues	1,513,940	1,633,550	(119,610)	103.3%
Expenses:				
General government	1,038,145	1,046,856	(8,711)	-0.8%
Interest on long- term debt	7,036	16,975	(9,939)	-58.6%
Total Expenses	1,045,181	1,063,831	(18,650)	-1.8%
Change in position	\$ 468,759	\$ 569,719	\$ (100,960)	-17.7%

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

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 spendable 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 9) reported a total fund balance of \$1,094,266. (an increase from prior year of \$289,472).

General Fund Budget Highlights. Actual revenues were \$251,488 higher than the budget. Actual expenditures were \$59,491 higher than the budget, reflecting a net favorable variance of \$191,997 in the change in fund balance. The effect of the merger with South Hays Fires Department, Inc. was not included in the budget, which caused most of the variances. More detail is presented in the required supplemental information section on page 21.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the District had invested \$2,806,152 in capital assets (excluding accumulated depreciation of \$2,165,042), consisting primarily of buildings and utility infrastructure assets.

More detailed information about the District's capital assets is presented in the Notes to the Financial Statements starting on page 18.

Debt

At year-end, the District had \$192,000 in total debt. This decrease of \$125,542 was the result of principal payments made. More detailed information about the District's long-term debt is presented in the Notes to the Financial Statements starting on page 19.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's appointed officials considered many factors when setting the fiscal year 2014 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 \$1,448,720 balanced budget for fiscal year 2014. It will be funded primarily through property and sales taxes and charges for services.

If the District does not incur any unforeseen expenditures or reductions in revenue, the District's management is confident they will accomplish the task of providing improved services within its available resources.

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: Hays County Emergency 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, 2013

	Total Governmental Activities
ASSETS	
Cash	\$ 652,280
Receivables	
Property taxes	362,003
Sales taxes	115,922
Texas fire academy fees	38,194
Prepaid assets	51,057
Inventory	5,576
Other assets	2,279
Capital assets:	
Land	95,966
Trucks, vehicles and boats	2,480,732
Stations	1,006,176
Furniture, fixtures and software	193,989
Equipment	755,026
Work in progress	439,305
Less: accumulated depreciation	(2,165,042)
Total assets	\$ 4,033,463
LIABILITIES	
Accounts payable	\$ 74,630
Accrued liabilities	18,224
Accrued interest payable	5,490
Texas fire academy participant's deposits	123,157
Noncurrent liabilities:	
Due within one year	48,000
Due after one year	144,000
Total liabilities	\$ 413,501
NET POSITION	
Net investment in capital assets	\$ 2,614,152
Unrestricted	1,005,810
Total net position	\$ 3,619,962

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, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental activities	\$ 1,038,145	\$ 65,961	\$ 17,406	\$ (954,778)
Interest expense	7,036	-	-	(7,036)
Total primary government	<u>\$ 1,045,181</u>	<u>\$ 65,961</u>	<u>\$ 17,406</u>	<u>\$ (961,814)</u>

General revenues:

Property taxes	699,945
Sales taxes	718,393
Interest income	2,377
Other income	9,858
Total general revenues	<u>1,430,573</u>

Change in net assets	468,759
Net position - beginning of year (as restated)	3,151,203
Net assets - end of year	<u>\$ 3,619,962</u>

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

BASIC FINANCIAL STATEMENTS
(The Funds)

Hays County Emergency Services District #3
Balance Sheet
December 31, 2013

	General Fund	Total Governmental Fund
ASSETS		
Cash	\$ 652,280	\$ 652,280
Receivables		
Property taxes	362,003	362,003
Sales taxes	115,922	115,922
Texas fire academy fees	38,194	38,194
Prepaid assets	51,057	51,057
Inventory	5,576	5,576
Other assets	2,279	2,279
Total assets	<u><u>\$ 1,227,311</u></u>	<u><u>\$ 1,227,311</u></u>
LIABILITIES		
Accounts payable	\$ 74,630	\$ 74,630
Accrued liabilities	11,834	11,834
Total liabilities	<u><u>86,464</u></u>	<u><u>86,464</u></u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue- property taxes	46,581	46,581
Total deferred inflows of resources	<u><u>46,581</u></u>	<u><u>46,581</u></u>
Fund Balance		
Nonspendable	56,633	56,633
Committed	397,237	397,237
Unreserved	640,396	640,396
Total fund balance	<u><u>1,094,266</u></u>	<u><u>1,094,266</u></u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 1,227,311</u></u>	<u><u>\$ 1,227,311</u></u>

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

Hays County Emergency Services District #3
Balance Sheet
December 31, 2013

	General Fund	Total Governmental Fund
ASSETS		
Cash	\$ 652,280	\$ 652,280
Receivables		
Property taxes	362,003	362,003
Sales taxes	115,922	115,922
Texas fire academy fees	38,194	38,194
Prepaid assets	51,057	51,057
Inventory	5,576	5,576
Other assets	2,279	2,279
Total assets	<u>\$ 1,227,311</u>	<u>\$ 1,227,311</u>
LIABILITIES		
Accounts payable	\$ 74,630	\$ 74,630
Accrued liabilities	11,834	11,834
Total liabilities	<u>86,464</u>	<u>86,464</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue- property taxes	46,581	46,581
Total deferred inflows of resources	<u>46,581</u>	<u>46,581</u>
Fund Balance		
Nonspendable	56,633	56,633
Committed	397,237	397,237
Unreserved	640,396	640,396
Total fund balance	<u>1,094,266</u>	<u>1,094,266</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,227,311</u>	<u>\$ 1,227,311</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, 2013

Total fund balance – governmental funds \$ 1,094,266
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, vehicles and boats	2,480,732	
Stations	1,006,176	
Furniture, fixtures and software	193,989	
Equipment	755,026	
Work in progress	439,305	
Accumulated depreciation	<u>(2,165,042)</u>	
Total capital assets		2,806,152

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. (192,000)

Some liabilities (such as Texas fire academy deposits, compensated
absences, and accrued interest) are not due and payable in the
current period and therefore are not reported in the fund. (135,037)

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. 46,581

Net assets of governmental activities (page 7) \$ 3,619,962

Hays County Emergency Services District #3
Statement of Revenues, Expenditures And Changes in
Governmental Funds
For the Year Ended December 31, 2013

	General Fund	Total Governmental Fund
Revenues:		
Tax revenues	\$ 1,444,951	\$ 1,444,951
Grant income	17,406	17,406
Charges for services	65,961	65,961
Interest and other contributions	2,377	2,377
Total Revenues	<u>1,530,695</u>	<u>1,530,695</u>
Expenditures:		
Apparatus	60,318	60,318
Communications	50,106	50,106
General and administrative	131,189	131,189
Contractual services	58,797	58,797
Personnel (including benefits)	252,150	252,150
Training	137,232	137,232
Station repairs, maintenance and supplies	48,220	48,220
Debt service- principal	125,542	125,542
Debt service- interest	4,294	4,294
Capital outlay	480,708	480,708
Total Expenditures	<u>1,348,556</u>	<u>1,348,556</u>
Excess of Revenues Over Expenditures	<u>182,139</u>	<u>182,139</u>
Other Financing Sources (Uses)		
Sale of equipment (net)	<u>9,858</u>	<u>9,858</u>
Net Change in Fund Balance	191,997	191,997
Fund Balance, Beginning of Year (as restated)	<u>902,269</u>	<u>902,269</u>
Fund Balance, End of Year	<u><u>\$ 1,094,266</u></u>	<u><u>\$ 1,094,266</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, 2013**

Net change in fund balance – total governmental fund	\$ 191,997
Amounts reported for governmental activities in the statement of activities (page 8) 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.	
	180,756
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.	
	(26,613)
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.	
Compensated absences	(181)
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.	
	125,542
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.	
	<u>(2,742)</u>
Change in net position of governmental activities (page 8)	<u><u>\$ 468,759</u></u>

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

NOTES TO FINANCIAL STATEMENTS

Hays County Emergency Services District No # 3
Notes To The Financial Statements
For The Year Ending December 31, 2013

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 revenues for emergency services. Those services include fire and allied services, first responder, and water rescue. The Commissioners of the District are an appointed Board by the County Commissioners to oversee and guide the various activities of the District and its divisions.

On Oct 1st, 2013, the District and South Hays Fire Department, Inc. merged. The District will retain the name South Hays Fire Department and its subsidiaries, Texas Fire Academy and San Marcos Area Recovery Team.

For the year ended December 31, 2013, the District adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amended the previous guidance of GASB Statement No. 14, on potential component unit inclusion or exclusion. Using these criteria, the District has no component units.

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, 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 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.

Hays County Emergency Services District No # 3
Notes To The Financial Statements
For The Year Ending December 31, 2013

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 30 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 fund:

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.

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, due as of December 31, 2013. The District does not record an allowance for uncollectable accounts, supported by historical collections.

F. 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.

Hays County Emergency Services District No # 3
Notes To The Financial Statements
For The Year Ending December 31, 2013

G. Texas Fire Academy Deposits

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

H. 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 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 amount becomes available.

I. 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 and 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 "restricted" or "net investment in capital assets."

Hays County Emergency Services District No # 3
Notes To The Financial Statements
For The Year Ending December 31, 2013

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

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 government's highest level of decision making authority. In the case of the District, it is the District Council 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 District Council.

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 balance first, followed by committed, assigned, and lastly unassigned fund balance.

J. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimation and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those 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, 2013, the carrying amount of the District's cash deposits was \$652,280 and the bank balance was \$698,756.

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.

Hays County Emergency Services District No # 3
Notes To The Financial Statements
For The Year Ending December 31, 2013

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, 2013.

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, 2013 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, its agencies; repurchase agreements; and no-load AAAM money market mutual funds registered with the SEC.

Hays County Emergency Services District No # 3
Notes To The Financial Statements
For The Year Ending December 31, 2013

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, 2013, 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 District #3. On the May 11, 2013 election, the District was approved to receive an additional ½% local sale and use tax, effective October 1, 2013, for a portion of the city of Wimberley that does not include the Wimberley Village Library District.

Note 5 – Capital Assets

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

	Balance 12/31/2012	Additions	Retirements	Balance 12/31/2013
Capital assets not being depreciated:				
Land	\$ 94,523	\$ 22,371	\$ (20,928)	\$ 95,966
Work in progress	30,700	408,605	-	439,305
Total	125,223	430,976	(20,928)	535,271
Capital assets being depreciated:				
Fires stations	1,006,176	-	-	1,006,176
Equipment	687,743	75,218	(25,156)	737,805
Trucks and vehicles	2,337,844	149,993	(37,966)	2,449,871
Boats and trailers	29,770	1,091	-	30,861
Furniture and fixtures	23,499	3,180	(2,500)	24,179
Computers and software	131,719	41,667	(3,576)	169,810
Medical and training equipment	-	17,221	-	17,221
Total	4,216,751	288,370	(69,198)	4,435,923
Total capital assets	4,341,974	719,346	(90,126)	4,971,194
Less accumulated depreciation	(1,839,477)	(307,329)	(18,236)	(2,165,042)
Net capital assets	\$ 2,502,497	\$ 412,017	\$ (108,362)	\$ 2,806,152

Hays County Emergency Services District No # 3
Notes To The Financial Statements
For The Year Ending December 31, 2013

Note 6 – Debt

The following is a summary of debt for the year ended December 31, 2013:

Description:	Origination Date	Maturity Date	Interest Rate	Balance 12/31/2012	Additions	Retirements	Balance 12/31/2013
Dell Computer	7/17/2010	7/17/2013	20.20%	\$ 314	\$ -	\$ (314)	\$ -
Dell Computer	8/25/2010	8/25/2014	20.30%	542	-	(542)	-
2005 Ford Brush Truck	10/1/2009	2/15/2014	4.25%	-	-	-	-
2009 Pierce Fire Engine	2/15/2009	2/15/2014	3.25%	76,686	-	(76,686)	-
2011 Pierce Tanker	12/21/2011	2/15/2017	3.25%	240,000	-	(48,000)	192,000
				<u>\$ 317,542</u>	<u>\$ -</u>	<u>\$ (125,542)</u>	<u>\$ 192,000</u>

Future Debt Service Requirements:

Amortization of Long Term Debt			
Year	Principal	Interest	Total
2014	\$ 48,000	\$ 5,490	\$ 53,490
2015	48,000	4,680	52,680
2016	48,000	3,120	51,120
2017	48,000	1,560	49,560
	<u>\$ 192,000</u>	<u>\$ 14,850</u>	<u>\$ 206,850</u>

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 \$6,391 for compensated absences (vacation pay), which has been earned but not taken by employees in the government-wide financial statements.

Hays County Emergency Services District No # 3
Notes To The Financial Statements
For The Year Ending December 31, 2013

Note 8 – Related Parties

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 Treasurer of the District and additionally is an authorized check signer on the District's bank accounts. The total amount paid during 2013 was \$37,521. 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 – Contract for Fire Services

The District entered into a contract with South Hays Fire Department on April 1, 2013 ending December 31, 2013 for fire prevention, protection and suppression services; and emergency medical first responder and rescue programs for an identified geographic area. The contract provides for certain District obligations and funding of \$2,500 per month. This contract was terminated as of the merger date, October 1, 2013. The amount paid to South Hays Fire Department prior to the merger totaled \$22,500 for the year ending December 31, 2013.

Note 10 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition of disclosure through May 15, 2014, 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, 2013

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	<u>Variance</u> Favorable (Unfavorable)
<u>REVENUES</u>				
Tax revenue	\$ 1,213,076	\$ 1,260,946	\$ 1,444,951	\$ 184,005
Grant income	12,768	12,910	13,886	976
Charges for services	5,000	6,224	65,961	59,737
Interest income	3,034	2,585	2,377	(208)
Other income	-	6,400	3,520	(2,880)
Total General Revenue	<u>1,233,878</u>	<u>1,289,065</u>	<u>1,530,695</u>	<u>241,630</u>
<u>EXPENDITURES</u>				
Apparatus	71,238	67,238	60,318	6,920
Communications	51,200	46,906	50,106	(3,200)
General and administrative	136,060	135,298	131,189	4,109
Contractual services	70,000	70,672	58,797	11,875
Personnel (including benefits)	349,849	302,889	252,150	50,739
Training	22,075	22,075	137,232	(115,157)
Station repairs, maintenance and supplies	46,125	45,625	48,220	(2,595)
Debt service - principal	147,896	125,541	125,542	(1)
Debt service - interest	11,506	6,890	4,294	2,596
Capital outlay	175,000	181,253	480,708	(299,455)
Total Expenses	<u>1,080,949</u>	<u>1,004,387</u>	<u>1,348,556</u>	<u>(344,169)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>152,929</u>	<u>284,678</u>	<u>182,139</u>	<u>(102,539)</u>
Other Financing Sources (Uses)				
Debt proceeds	60,000	-	-	-
Funds and reserves net change	(212,929)	(284,678)	-	284,678
Sale of equipment	-	-	9,858	9,858
	<u>(152,929)</u>	<u>(284,678)</u>	<u>9,858</u>	<u>294,536</u>
Net Change in Fund Balance	-	-	191,997	191,997
<u>BEGINNING FUND BALANCE, Unrestricted (as restated)</u>	<u>902,269</u>	<u>902,269</u>	<u>902,269</u>	<u>-</u>
<u>ENDING FUND BALANCE, Unrestricted</u>	<u>\$ 902,269</u>	<u>\$ 902,269</u>	<u>\$ 1,094,266</u>	<u>\$ 191,997</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

310 E. AVE. C

P.O. BOX 808

BELTON, TX 76513-0808

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, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 15, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We have reported to those in charge with governance a *significant deficiency* identified during our audit in a separate communication, dated April 29, 2014.

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

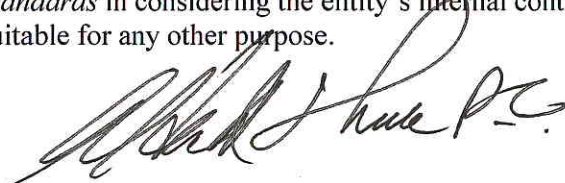
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)**

Compliance and Other Matters

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

Purpose of this Report

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



ALTON D. THIELE, PC
Belton, Texas
May 15, 2014