

**HAYS COUNTY EMERGENCY SERVICES  
DISTRICT #3**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

**WILLIAMARTHURGRIMSLEY**  
Certified Public Accountant

# HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

## TABLE OF CONTENTS

---

	<u>Page</u>
<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
<b>Government- wide Financial Statements:</b>	
Statement of Net Position	8
Statement of Activities	9
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Governmental Fund Balances to the Statement of Activities	13
<b>Notes to Financial Statements</b>	14-23
<b>Required Supplementary Information:</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget to Actual - GAAP Basis	24
<b>Compliance and Internal Control Section:</b>	
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 <i>Government Auditing Standards</i>	25-26

# WILLIAMARTHURGRIMSLEY

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, 2017, 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, 2017, 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 25, 2018, 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 Arthur Grimsley, CPA  
Gatesville, Texas  
May 25, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

*For the Year Ended December 31, 2017*

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, 2017. 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 \$5,211,952 (net position). Of this amount, \$730,809 is unrestricted and may be used to meet the District's future obligations.
- During the year, the District's revenues of \$2,099,777, exceeded its expenses of \$1,960,932, reflecting an increase in net position of \$138,845.
- The District's capital assets totaled \$7,506,495, net of accumulated depreciation of \$3,743,760, a decrease of \$442,813, the result of depreciation expense exceeding net capital additions.
- Debt at year-end of \$3,322,081 decreased by \$869,740, the result of paying off the Tanker and Air-Paks notes and principal payments against the Station note.

### 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

---

*For the Year Ended December 31, 2017*

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

*For the Year Ended December 31, 2017*

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net Position.** The following is a summary of the District's net position as of December 31, 2017. Net assets exceed liabilities by \$5,211,952, 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

	2017	2016	\$ Change	% Change
Current and other assets	\$ 1,381,197	\$ 1,638,243	\$ (257,046)	-15.7%
Capital assets, net	7,506,495	7,949,308	(442,813)	-5.6%
Total assets	<u>8,887,692</u>	<u>9,587,551</u>	<u>(699,859)</u>	<u>-7.3%</u>
Current liabilities	353,659	322,623	31,036	9.6%
Long-term liabilities	3,322,081	4,191,821	(869,740)	-20.7%
Total liabilities	<u>3,675,740</u>	<u>4,514,444</u>	<u>(838,704)</u>	<u>-18.6%</u>
Net position:				
Net investment in capital assets	4,184,413	3,757,487	426,926	11.4%
Restricted	296,730	295,991	739	0.0%
Unrestricted	730,809	1,019,629	(288,820)	-28.3%
Total net position	<u>\$ 5,211,952</u>	<u>\$ 5,073,107</u>	<u>\$ 138,845</u>	<u>2.7%</u>

**Changes in Net Position.** The following is a summary of the District's operations for the fiscal year 2017. Revenues totaled \$2,099,777 for the year, an increase of \$33,980 or 1.6%. Property and sales taxes are the largest components of revenue, accounting for 78.3% of total revenue. The increase in charges for services, primarily related to the Texas Fire Academy, were off-set by a decrease in grant revenue. Expenses totaled \$1,960,932, an increase of \$163,027 or 9.1%, primarily from an increase in personnel costs, and depreciation.



# HAYS COUNTY EMERGENCY SERVICES **DISTRICT #3**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*For the Year Ended December 31, 2017*

### CHANGES IN NET POSITION

	2017	2016	\$ Change	% Change
Program Revenues:				
Charges for services	\$ 389,240	\$ 264,274	\$ 124,966	47.3%
Grant and contributions income	39,463	147,537	(108,074)	-73.3%
General Revenues:				
Tax revenues	1,644,650	1,644,461	189	0.0%
Interest income	2,544	2,158	386	17.9%
Other income	23,880	7,367	16,513	224.1%
Total revenues	<u>2,099,777</u>	<u>2,065,797</u>	<u>33,980</u>	<u>1.6%</u>
Expenses:				
General government	1,846,658	1,676,385	170,273	10.2%
Interest on long-term debt	<u>114,274</u>	<u>121,520</u>	<u>(7,246)</u>	<u>-6.0%</u>
Total expenses	<u>1,960,932</u>	<u>1,797,905</u>	<u>163,027</u>	<u>9.1%</u>
Change in net position	<u>\$ 138,845</u>	<u>\$ 267,892</u>	<u>\$ (129,047)</u>	<u>-48.2%</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 \$1,084,407, (a decrease from the prior year of \$264,045), primarily the result of a decrease in property tax.

**Budget Highlights.** The District prepares its budget on a government-wide (full accrual) GAAP basis. Actual revenues were \$45,040 higher than the budget. Actual expenditures were \$53,422 lower than the budget, reflecting a net favorable variance of \$98,462 in excess revenues over expenditures. This favorable variance was primarily the result of lower than budgeted personnel and equipment costs and larger than expected sales tax collections.

More detail is presented in the required supplementary information section on page 24.

# **HAYS COUNTY EMERGENCY SERVICES DISTRICT #3**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

*For the Year Ended December 31, 2017*

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At year-end, the District's investment in capital assets totaled \$7,506,495, net of accumulated depreciation, a decrease of \$442,813 to the prior year. This year's major addition was the Brush Truck.

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 \$3,322,081, a decrease from the prior year of \$869,740. This decrease was primarily the result of scheduled debt principal payments along with supplemental principal payments against the Hunter Road station note. 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 2018 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 \$2,042,742 budget, reflecting a surplus of \$230,661, for fiscal year 2018. 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

As of December 31, 2017

	Total Governmental Activities
<b>ASSETS:</b>	
Cash	\$ 911,901
Receivables:	
Property taxes	136,086
Sales tax	205,812
Texas Fire Academy fees	28,509
Prepaid assets	93,189
Inventory and other assets	5,700
Total current assets	1,381,197
Capital assets:	
Land	96,450
Trucks, vehicles and boats	2,615,502
Stations	6,774,687
Furniture and fixtures	149,501
Computers and software	198,941
Equipment	1,336,288
Work in process	78,886
Less: accumulated depreciation	(3,743,760)
Total long-term assets	7,506,495
<b>Total assets</b>	<b>\$ 8,887,692</b>
<b>LIABILITIES:</b>	
Accounts payable	\$ 152,166
Accrued liabilities	24,725
Accrued interest payable	4,124
Texas Fire Academy participant's deposits	172,644
Total current liabilities	353,659
Noncurrent liabilities:	
Due within one year	185,627
Due after one year	3,136,455
Total noncurrent liabilities	3,322,082
<b>Total liabilities</b>	<b>\$ 3,675,741</b>
<b>NET POSITION:</b>	
Net investment in capital assets	\$ 4,184,413
Restricted: debt service	296,730
Unrestricted	730,808
<b>Total net position</b>	<b>\$ 5,211,951</b>

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, 2017*

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating Grants	Revenue and Change
		Services	and Contributions	in Net Position
				Governmental
				Activities
Governmental activities	\$ 1,846,658	\$ 389,240	\$ 39,463	\$ (1,417,955)
Interest expense	114,274	-	-	(114,274)
Total primary government	<u>\$ 1,960,932</u>	<u>\$ 389,240</u>	<u>\$ 39,463</u>	<u>\$ (1,532,229)</u>
General Revenues:				
				562,128
				1,082,522
				2,544
				23,880
			<b>Total General Revenues</b>	<u>1,671,074</u>
			<b>Change in Net Position</b>	138,845
			<b>Net Position - Beginning of Year</b>	<u>5,073,107</u>
			<b>Net Position - End of Year</b>	<u>\$ 5,211,952</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

*As of December 31, 2017*

	General Fund	Debt Service Fund	Total Governmental Fund
<b>ASSETS</b>			
Cash	\$ 615,171	\$ 296,730	\$ 911,901
Property tax receivable	136,086	-	136,086
Sales taxes receivable	205,812	-	205,812
Texas Fire Academy fees receivable	28,509	-	28,509
Prepaid assets	93,189	-	93,189
Inventory and other assets	5,700	-	5,700
<b>Total assets</b>	<u><u>\$ 1,084,467</u></u>	<u><u>\$ 296,730</u></u>	<u><u>\$ 1,381,197</u></u>
<b>LIABILITIES</b>			
Accounts payable	\$ 152,166	\$ -	\$ 152,166
Accrued liabilities	24,041	-	24,041
<b>Total liabilities</b>	<u>176,207</u>	<u>-</u>	<u>176,207</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Unavailable revenue - property taxes	<u>120,583</u>	<u>-</u>	<u>120,583</u>
<b>Fund Balance</b>			
Nonspendable	98,889	-	98,889
Restricted - debt service	-	296,730	296,730
Committed	-	-	-
Unassigned	<u>688,788</u>	<u>-</u>	<u>688,788</u>
<b>Total fund balance</b>	<u>787,677</u>	<u>296,730</u>	<u>1,084,407</u>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<u><u>\$ 1,084,467</u></u>	<u><u>\$ 296,730</u></u>	<u><u>\$ 1,381,197</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**

---

*As of December 31, 2017*

Total fund balance (deficit) – governmental funds \$ 1,084,407  
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	2,615,502	
Stations	6,774,687	
Furniture and fixtures	149,501	
Computers and software	198,941	
Equipment	1,336,288	
Work in progress	78,886	
Accumulated depreciation	<u>(3,743,760)</u>	
Total capital assets		7,506,495

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. (3,322,082)

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. (177,452)

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. 120,583

Net assets of governmental activities (page 8) \$ 5,211,951

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, 2017*

	General Fund	Debt Service Fund	Total Governmental Fund
<b>Revenues:</b>			
Tax revenues	\$ 1,644,650	\$ -	\$ 1,644,650
Grant and contribution income	39,463	-	39,463
Charges for services	389,240	-	389,240
Interest	1,805	739	2,544
Other income	23,880	-	23,880
<b>Total Revenues</b>	<u>2,099,038</u>	<u>739</u>	<u>2,099,777</u>
<b>Expenditures:</b>			
Apparatus	143,574	-	143,574
Communications	58,630	-	58,630
General and administrative	179,404	-	179,404
Personnel (including benefits)	477,552	-	477,552
Training	65,606	-	65,606
Texas Fire Academy	273,742	-	273,742
Station repairs, maintenance and supplies	97,464	-	97,464
Debt service - principal	869,740	-	869,740
Debt service - interest	114,274	-	114,274
Capital outlay	125,836	-	125,836
<b>Total Expenditures</b>	<u>2,405,822</u>	<u>-</u>	<u>2,405,822</u>
<b>Excess of Revenues Over</b>			
<b>Expenditures</b>	<u>(306,784)</u>	<u>739</u>	<u>(306,045)</u>
<b>Other Financing Sources (Uses):</b>			
Application of station hold-back	42,000	-	42,000
Total other financing sources (uses)	42,000	-	42,000
<b>Net Change in Fund Balance</b>	(264,784)	739	(264,045)
<b>Fund Balance, Beginning of Year</b>	<u>1,052,461</u>	<u>295,991</u>	<u>1,348,452</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 787,677</u></u>	<u><u>\$ 296,730</u></u>	<u><u>\$ 1,084,407</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, 2017*

Net change in fund balance – total governmental fund \$ (264,045)

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 (lower) than depreciation in the current period. (424,850)

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. 1,692

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. (46,390)

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. 869,740

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. 2,698

---

Change in net position of governmental activities (page 9) \$ 138,845

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, 2017*

### **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 political subdivision 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 segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

# HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

## Notes to the Financial Statements

---

*For the Year Ended December 31, 2017*

### 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, 2017*

---

### 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, 2017. 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, 2017*

#### H. Texas Fire Academy Deposits

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

#### 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, 2017*

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, 2017*

### K. Estimates

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

### **Note 2 – Cash Deposits**

#### Legal and Contractual Provisions, Governing Deposits and Investments

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

At December 31, 2017, the carrying amount of the District's cash deposits was \$911,901 and the bank balance was \$919,194.

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, and (9) 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, and (10) 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, 2017.

# HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

## Notes to the Financial Statements

---

*For the Year Ended December 31, 2017*

### **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, 2017, 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 AAA 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, 2016, 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, 2017*

### **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 12/31/2016	Additions	Retirements	Balance 12/31/2016
Capital assets not being depreciated:				
Land	\$ 96,450	\$ -	\$ -	\$ 96,450
Work-in-process	97,600	84,913	(103,627)	78,886
Total	194,050	84,913	(103,627)	175,336
Capital assets being depreciated:				
Stations	6,809,841	6,846	(42,000)	6,774,687
Equipment	1,387,213	41,191	(92,116)	1,336,288
Trucks, vehicles, and boats	2,496,223	119,279	-	2,615,502
Furniture and fixtures	149,501	-	-	149,501
Computers and software	197,490	1,451	-	198,941
Total capital assets being depreciated	11,040,268	168,767	(134,116)	11,074,919
Total capital assets	11,234,318	253,680	(237,743)	11,250,255
Less: accumulated depreciation	(3,285,010)	(548,938)	90,188	(3,743,760)
Net capital assets	<u>\$ 7,949,308</u>	<u>\$ (295,258)</u>	<u>\$ (147,555)</u>	<u>\$ 7,506,495</u>

Depreciation was charged to functions within the primary government as follows

Governmental activities	\$ 543,391
Texas fire academy	7,295
Total	<u>\$ 550,686</u>

# HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

## Notes to the Financial Statements

*For the Year Ended December 31, 2017*

### Note 6 – Debt

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

	Origination Date	Maturity Date	Interest Rate	Balance 12/31/2016	Additions	Retirements	Balance 12/31/2017
2011 Pierce Tanker	12/21/2011	2/15/2017	3.25%	\$ 48,000	\$ -	\$ (48,000)	\$ -
Air Packs	12/3/2016	12/15/2021	2.50%	150,000	-	(150,000)	-
Hunter Road Station	5/23/2014	5/16/2029	2.95%	3,993,822	-	(671,740)	3,322,082
				<u>\$ 4,191,822</u>	<u>\$ -</u>	<u>\$ (869,740)</u>	<u>\$ 3,322,082</u>

At December 31, 2017, future debt service requirements are as follows:

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

	Principal	Interest	Total
2018	\$ 173,861	\$ 117,647	\$ 291,508
2019	179,060	112,448	291,508
2020	184,414	107,094	291,508
2021	187,611	103,896	291,507
2022-2026	1,008,161	449,378	1,457,539
2027-2029	1,588,975	216,508	1,805,483
Total	<u>\$ 3,322,082</u>	<u>\$ 1,106,971</u>	<u>\$ 4,429,053</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 matured on February 15, 2017 and carried an interest rate of 3.25%. For the year ended December 31, 2017, the final principal payment of \$48,000 was made.

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, 2017, principal payments were \$671,740 and interest

# **HAYS COUNTY EMERGENCY SERVICES DISTRICT #3**

## **Notes to the Financial Statements**

---

### ***For the Year Ended December 31, 2017***

of \$110,150 was paid. The loan is secured by the assignment of Ad Valorem Taxes and required the establishment of a debt service fund equivalent to the note payments due during each fiscal year. Accordingly, \$296,730 is reported as restricted assets in the statement of net position and the governmental balance sheet. As of the year ended December 31, 2017, the District was in compliance with the loan agreement.

On December 3, 2016, the District entered into a commercial promissory note with Sage Capital Bank for the purchase of 26 Air-Paks, of \$150,000. The loan matures on December 15, 2021 and carries an interest rate of 2.50%. Monthly payments of \$2,667, including interest, start on January 15, 2017, and continue through the term of the note. The note is secured by the related equipment. This note was paid off during the year.

#### **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 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 or disclosure through May 25, 2018, the date the financial statements were available to be issued. There were no events noted that required adjustment to these financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**HAYS COUNTY EMERGENCY SERVICES DISTRICT #3**  
**Statement of Revenues, Expenditures, and Changes in Fund**  
**Balance - Budget to Actual - GAAP Basis**

*For the Year Ended December 31, 2017*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b><u>REVENUES</u></b>				
Tax revenue	\$ 1,582,334	\$ 1,596,847	\$ 1,644,650	\$ 47,803
Charges for services	264,600	319,200	317,920	(1,280)
Grant income	23,821	41,138	39,463	(1,675)
Interest income	2,220	2,525	2,544	19
Other income	21,500	95,027	95,200	173
Total General Revenue	1,894,475	2,054,737	2,099,777	45,040
<b><u>EXPENDITURES</u></b>				
Apparatus	85,900	137,400	135,272	2,128
Communications	72,263	59,115	58,630	485
General and administrative	125,881	173,005	167,404	5,601
Contractual services	12,000	18,000	18,000	-
Personnel (including benefits)	617,545	609,370	590,073	19,297
Safety and personal equipment	51,000	79,806	55,780	24,026
Training	32,070	46,840	46,283	557
Texas Fire Academy	110,150	128,070	127,066	1,004
Station repairs, maintenance and supplies	67,425	96,425	97,464	(1,039)
Depreciation	513,750	552,500	550,686	1,814
Debit service - interest	118,823	113,823	114,274	(451)
Total Expenses	1,806,807	2,014,354	1,960,932	53,422
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>\$ 87,668</b>	<b>\$ 40,383</b>	<b>\$ 138,845</b>	<b>\$ 98,462</b>

## **COMPLIANCE AND INTERNAL CONTROL SECTION**



# WILLIAMARTHURGRIMSLEY

## CERTIFIED PUBLIC ACCOUNTANT

---

### 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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Hays County Emergency Services District #3 (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report, thereon, dated May 25, 2018.

#### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

William Arthur Grimsley, CPA  
Gatesville, Texas  
May 25, 2018