HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

WILLIAMARTHURGRIMSLEY
Certified Public Accountant

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

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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, 2016, 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.

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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, 2016, and the respective changes in financial positon 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 April 24, 2017, 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
Killeen, Texas
April 24, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2016

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, 2016. 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 $5,073,107 (net position). Of this amount, $1,019,629 is unrestricted and may be used to meet the District's future obligations.

- During the year, the District's revenues of $2,065,797, exceeded its expenses of $1,797,905, reflecting an increase in net position of $267,892.

- The District's capital assets totaled $7,949,308, net of accumulated depreciation of $3,285,010, a decrease of $29,202, primarily the result of depreciation expense exceeding net capital additions.

- Debt at year-end of $4,191,821 increased by $164,752, the result of $510,840 in additional debt reduced by $346,088 in principal payments.

Overview of the Financial Statements

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

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

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

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 in 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.

For the Year Ended December 31, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. The following is a summary of the District's net position as of December 31, 2016. Net assets exceed liabilities by $5,073,107, 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

	2016	2015	$ Change	% Change
Current and other assets	$ 1,638,243	$ 1,362,329	$ 275,914	20.3%
Capital assets, net	7,949,308	7,978,510	(29,202)	-0.4%
Total assets	9,587,551	9,340,839	246,712	2.6%
Current liabilities	322,623	508,555	(185,932)	-36.6%
Long-term liabilities	4,191,821	4,027,070	164,751	4.1%
Total liabilities	4,514,444	4,535,625	(21,181)	-0.5%
Net position:				
Net investment in capital assets	3,757,487	3,951,440	(193,953)	-4.9%
Restricted	295,991	291,508	4,483	100.0%
Unrestricted	1,019,629	562,266	457,363	81.3%
Total net positon	$ 5,073,107	$ 4,805,214	$ 267,893	5.6%

Changes in Net Position. The following is a summary of the District's operations for the fiscal year 2016. Revenues totaled $2,065,797 for the year, an increase of $123,109 or 6.3%. Property and sales taxes are the largest components of revenue, accounting for 79.6 % of total revenue. The decrease in charges for services, primarily related to the Texas Fire Academy, were off-set by an increase in grant revenue. Expenses totaled $1,797,905, an increase of $393,806 or 28.0%, primarily from an increase in personnel costs, depreciation, and interest expense.

CHANGES IN NET POSITION

	2016	2015	$ Change	% Change
Program Revenues:				
Charges for services	$ 264,274	$ 328,398	$ (64,124)	-19.5%
Grant and contributions income	147,537	15,589	131,948	846.4%
General Revenues:				
Tax revenues	1,644,461	1,589,006	55,455	3.5%
Interest income	2,158	1,830	328	17.9%
Other income	7,367	7,865	(498)	-6.3%
Total revenues	2,065,797	1,942,688	123,109	6.3%
Expenses:				
General government	1,676,385	1,314,733	361,652	27.5%
Interest on long-term debt	121,520	89,366	32,154	36.0%
Total expenses	1,797,905	1,404,099	393,806	28.0%
Change in net position	$ 267,892	$ 538,589	$ (270,697)	-50.3%

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 $1,348,452, (an increase from the prior year of $504,351), primarily the result of revenue increase in taxes, grant income, and lower capital outlays.

Budget Highlights. The District prepares its budget on a government-wide (full accrual) GAAP basis. Actual revenues were $4,347 lower than the budget. Actual expenditures were $24,244 lower than the budget, reflecting a net favorable variance of $19,897 in excess revenues over expenditures. This favorable variance was primarily the result of lower than budgeted station related costs, off-set partially by over budget expenses in general and administrative, and personnel expenses.

More detail is presented in the required supplementary information section on page 25.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District's investment in capital assets totaled $7,949,308, net of accumulated depreciation, a decrease of $29,202 to the prior year. This year's major additions were the Radios, Air-Paks, Brush Truck (in progress), off-set by the disposal of the San Antonio Street Station.

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

Debt

At year-end, the District's long-term debt was $4,191,821, an increase over the prior year of $164,751. This increase was primarily the net result of additional financing for the Air-Paks. 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 2017 budget and tax rates. Some of those factors include the economy and the anticipated needs of the District for operations and capital outlay in the next year. The District adopted a government-wide $1,894,475 budget, reflecting a surplus of $230,491, for fiscal year 2017. 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

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3
Statement of Net Position

As of December 31, 2016

	Total Governmental Activities
ASSETS:	
Cash	$ 917,979
Receivables:	
Property taxes	433,434
Sales tax	167,916
Texas Fire Academy fees	29,587
Prepaid assets	83,626
Inventory and other assets	5,701
Total current assets	1,638,243
Capital assets:	
Land	96,450
Trucks, vehicles and boats	2,496,223
Stations	6,809,841
Furniture and fixtures	149,501
Computers and software	197,490
Equipment	1,387,213
Work in process	97,600
Less: accumulated depreciation	(3,285,010)
Total long-term assets	7,949,308
Total assets	$ 9,587,551
LIABILITIES:	
Accounts payable	$ 150,203
Accrued liabilities	23,033
Accrued interest payable	6,822
Texas Fire Academy participant's deposits	142,565
Total current liabilities	322,623
Noncurrent liabilities:	
Due within one year	253,930
Due after one year	3,937,891
Total noncurrent liabilites	4,191,821
Total liabilities	$ 4,514,444
NET POSITION:	
Net investment in capital assets	$ 3,757,487
Restricted: debt service	295,991
Unrestricted	1,019,629
Total net position	$ 5,073,107

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, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position: Governmental Activities
Governmental activities	$ 1,676,385	$ 264,274	$ 147,537	$ (1,264,574)
Interest expense	121,520	-	-	(121,520)
Total primary government	$ 1,797,905	$ 264,274	$ 147,537	$ (1,386,094)

General Revenues:	
Property taxes	831,130
Sales taxes	813,331
Interest income	2,158
Other Income	7,367
Total General Revenues	1,653,986
Change in Net Position	267,892
Net Position - Beginning of Year	4,805,215
Net Position - End of Year	$ 5,073,107

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, 2016

	General Fund	Debt Service Fund	Total Governmental Fund
ASSETS			
Cash	$ 621,988	$ 295,991	$ 917,979
Property tax receivable	433,434	-	433,434
Sales taxes receivable	167,916	-	167,916
Texas Fire Academy fees receivable	29,587	-	29,587
Prepaid assets	83,626	-	83,626
Inventory and other assets	5,701	-	5,701
Total assets	$ 1,342,252	$ 295,991	$ 1,638,243
LIABILITIES			
Accounts payable	$ 147,063	$ -	$ 147,063
Accrued liabilities	22,145	-	22,145
Total liabilities	169,208	-	169,208
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue - property taxes	120,583	-	120,583
Fund Balance			
Nonspendable	89,327	-	89,327
Restricted - debt service	-	295,991	295,991
Committed	-	-	-
Unassigned	963,134	-	963,134
Total fund balance	1,052,461	295,991	1,348,452
Total liabilities, deferred inflows of resources and fund balance	$ 1,342,252	$ 295,991	$ 1,638,243

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, 2016

Total fund balance (deficit) – governmental funds		$ 1,348,452
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	2,496,223	
Stations	6,809,841	
Furniture and fixtures	149,501	
Computers and software	197,490	
Equipment	1,387,213	
Work in progress	97,600	
Accumulated depreciation	(3,285,010)	
Total capital assets		7,949,308
Long-term debt is not due and payable in the current period and, therefore, is not reported as a liability in the fund financial statement.		(4,191,821)
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.		(153,415)
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)		$ 5,073,107

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, 2016

	General Fund	Debt Service Fund	Total Governmental Fund
Revenues:			
Tax revenues	$ 1,643,040	$ -	$ 1,643,040
Grant and contribution income	147,537	-	147,537
Charges for services	305,805	-	305,805
Interest	1,419	739	2,158
Other income	7,367	-	7,367
Total Revenues	2,105,168	739	2,105,907
Expenditures:			
Apparatus	60,405	-	60,405
Communications	62,881	-	62,881
General and administrative	167,251	-	167,251
Contractual services	36,763	-	36,763
Personnel (including benefits)	562,270	-	562,270
Training	34,796	-	34,796
Texas Fire Academy	118,062	-	118,062
Station repairs, maintenance and supplies	67,939	-	67,939
Debt service - principal	346,088	-	346,088
Debt service - interest	120,414	-	120,414
Capital outlay	538,667	-	538,667
Total Expenditures	2,115,536	-	2,115,536
Excess of Revenues Over Expenditures	(10,368)	739	(9,629)
Other Financing Sources (Uses):			
Loan proceeds	510,840	-	510,840
Total other financing sources (uses)	510,840	-	510,840
Net Change in Fund Balance	500,472	739	501,211
Fund Balance, Beginning of Year	551,989	295,252	847,241
Fund Balance, End of Year	$ 1,052,461	$ 295,991	$ 1,348,452

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, 2016

Net change in fund balance – total governmental fund	$ 501,211
Amounts reported for governmental activities in the statement of activities (page 9) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were higher than depreciation in the current period.	19,039
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.	(40,110)
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.	346,088
Proceeds from debt is another source of funds in the governmental funds, but the proceeds increase long-term debt in the statement of net position.	(510,840)
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.	(1,106)
Change in net position of governmental activities (page 9)	$ 267,892

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

Note 1- Summary of Significant Accounting Policies

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

A. The Reporting Entity

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

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.

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, 2016. 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 that 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

H. Texas Fire Academy Deposits

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

I. Deferred Outflows/Inflows of Resources

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

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

J. Equity Classifications

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

Net investment in capital assets – Capital assets, net of accumulated depreciation, reduced by the outstanding balance of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
Restricted – Consists of assets with constraints placed on the use either by: 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed law through constitutional provisions or enabling legislation. When both restricted and 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.

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, 2016, the carrying amount of the District's cash deposits was $917,979 and the bank balance was $1,148,835, due to outstanding checks for fixed asset purchases.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in: (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker's acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District did not have invested funds at December 31, 2016.

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, 2016, were covered by

depository insurance or by pledged collateral held by the District's agent bank in the District's name.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus, positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

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

Note 3 – Property Taxes

The District has the authority to levy a tax to a maximum of $.10 per $100 of assessed property values. Property taxes are levied each October 1 on the assessed valuation of all taxable property within the District's boundaries. The tax rate for the October 1, 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.

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.

For the Year Ended December 31, 2016

Note 5 – Capital Assets

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

	Balance 12/31/2015	Additions	Retirements	Balance 12/31/2016
Capital assets not being depreciated:				
Land	$ 96,450	$ -	$ -	$ 96,450
Work-in-process	-	97,599	-	97,599
Total	96,450	97,599	-	194,049
Capital assets being depreciated:				
Stations	6,850,354	33,858	(74,371)	6,809,841
Equipment	984,159	382,705	-	1,366,864
Trucks and vehicles	2,455,248	10,114	-	2,465,362
Boats and trailers	30,861	-	-	30,861
Furniture and fixtures	143,010	6,491	-	149,501
Computers and software	192,720	4,771	-	197,491
Medical and training equipment	17,221	3,129	-	20,350
Total capital assets being depreciated	10,673,573	441,068	(74,371)	11,040,270
Total capital assets	10,770,023	538,667	(74,371)	11,234,319
Less: accumulated depreciation	(2,791,513)	(519,628)	26,130	(3,285,011)
Net capital assets	$ 7,978,510	$ 19,039	$ (48,241)	$ 7,949,308

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

Governmental Activities	$ 513,380
Texas Fire Academy	6,248
Total	$ 519,628

For the Year Ended December 31, 2016

Note 6 – Debt

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

Notes Payable:	Origination Date	Maturity Date	Interest Rate	Balance 12/31/2015	Additions	Retirements	Balance 12/31/2016
2011 Pierce Tanker	12/21/2011	2/15/2017	3.25%	$ 96,000	$ -	$ (48,000)	$ 48,000
Hunter Road Station	5/23/2014	5/16/2029	2.95%	3,931,070	360,840	(298,088)	3,993,822
Air-Packs	12/3/2016	12/15/2021	2.50%	-	150,000	-	150,000
				$ 4,027,070	$ 510,840	$ (346,088)	$ 4,191,822

At December 31, 2016, future debt service requirements are as follows:

2011 Pierce Tanker note:

Year	Principal	Interest	Total
2017	$ 48,000	$ 1,560	$ 49,560
Total	$ 48,000	$ 1,560	$ 49,560

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

Year:	Principal	Interest	Total
2017	$ 176,058	$ 115,450	$ 291,508
2018	181,322	110,186	291,508
2019	186,744	104,764	291,508
2020	192,328	99,180	291,508
2021	198,079	93,429	291,508
2022-2026	1,082,864	374,675	1,457,539
2027-2029	1,976,427	121,070	2,097,497
Total	$ 3,993,822	$ 1,018,754	$ 5,012,576

Air-Paks note:

Year	Principal	Interest	Total
2017	$ 28,479	$ 3,521	$ 32,000
2018	29,220	2,780	32,000
2019	29,979	2,021	32,000
2020	30,759	1,241	32,000
2021	31,563	437	32,000
Total	$ 150,000	$ 10,000	$ 160,000

On December 21, 2011, the District entered into a loan agreement with Sage Capital Bank for the purchase of a 2011 Pierce Tanker, of $240,000. The loan matures on February 15, 2017, and carries an interest rate of 3.25%. The loan is secured by the related equipment. For the year ended December 31, 2016, principal payments of $48,000 were made and interest of $3,111 was paid.

On May 23, 2014, the District entered into a loan agreement with Sage Capital 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, 2016, draws totaled $3,993,822, net of $298,088 in principal payments. Interest of $119,514 was paid for the year ended December 31, 2016. 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. The fund balance of $295,991, is reported as restricted assets in the statement of net position and the governmental balance sheet. As of the year ended December 31, 2016, the District was in compliance with the loan agreement.

On October 1, 2016, the District renewed its line of credit loan with Sage Capital Bank, of $50,000. The loan matures on October 1, 2017, and carries an interest rate of 5.00%. The loan is secured by two 2000 Pierce fire trucks. For the year ended December 31, 2016, no borrowings were incurred against this loan.

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.

Note 7 – Related Party Transactions

The District utilizes a contract consultant for some of the accounting duties such as overseeing the full time administrative assistant and other related bookkeeping duties. This individual also serves as the Secretary/Treasurer of the District and additionally is an authorized check signer on the District's bank accounts. The amount paid for the year ended December 31, 2016, was $37,381. 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 VFIS of Texas for its general liability and property damage.

Note 9 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition of disclosure through April 24, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - GAAP Basis
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Tax revenue	$ 1,550,245	$ 1,605,332	$ 1,644,461	$ 39,129
Charges for services	237,000	264,120	264,274	154
Grant income	135,521	141,424	147,537	6,113
Interest income	2,270	2,270	2,158	(112)
Other income	57,000	57,000	7,369	(49,631)
Total General Revenue	1,982,036	2,070,146	2,065,799	(4,347)
EXPENDITURES				
Apparatus	45,500	49,700	60,405	(10,705)
Communications	67,500	66,250	62,881	3,369
General and administrative	122,081	192,856	213,283	(20,427)
Contractual services	45,000	43,500	36,763	6,737
Personnel (including benefits)	555,268	541,860	562,630	(20,770)
Training	35,070	33,022	34,796	(1,774)
Texas Fire Academy	116,300	123,500	118,062	5,438
Station repairs, maintenance and supplies	136,475	130,455	67,939	62,516
Depreciation	515,550	518,800	519,628	(828)
Debit service - interest	120,208	122,208	121,520	688
Total Expenses	1,758,952	1,822,151	1,797,907	24,244
Excess (Deficit) of Revenues Over Expenditures	$ 223,084	$ 247,995	$ 267,892	$ 19,897

COMPLIANCE AND INTERNAL CONTROL SECTION

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated April 24, 2017.

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.

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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
Killeen, Texas
April 24, 2017