



Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2022

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Statement of Net Position	7
Statement of Activities	8
Governmental Funds Balance Sheet	9
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	10
Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances	11
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to Financial Statements	13-20
General Fund Budgetary Comparison Schedule	21



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CERTIFIED PUBLIC ACCOUNTANTS

Board of Commissioners and Management
Hays County Emergency Services District #3

INDEPENDENT AUDITOR'S REPORT

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Hays County Emergency Services District #3 (District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Correction of Error

As discussed in Note 9 to the financial statements, certain errors resulted in the understatement of amounts previously reported for accounts receivable and deferred inflows of resources from property taxes as of December 31, 2021. Accordingly, amounts reported for accounts receivable and deferred inflows of resources from property taxes have been restated in the 2021 financial statements, and an adjustment has been made to net position and fund balance as of December 31, 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern

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for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

Montemayor Brittan Bender PC

June 29, 2023
Austin, Texas

HAY COUNTY EMERGENCY SERVICES DISTRICT #3
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022

The following is a narrative overview and analysis of the financial activities of the Hays County Emergency Services District #3 (“the District”) for the year ended December 31, 2022. Please read it in conjunction with the District’s financial statements, which follow this section.

Financial Highlights

- The District’s property tax revenues for the year totaled \$1,385,668, an increase of \$452,676 over prior year.
- The District’s sales tax revenue for the year totaled \$2,211,973, an increase of \$231,602 over the prior year.
- The District incurred an increase in net position of \$1,381,821 for the year.
- Capital assets decreased by \$292,546, due to additions of equipment, furniture and equipment, vehicles, and work in progress of \$305,597, offset by depreciation expense of \$598,143.
- Debt decreased by \$503,776, due to principal payments on existing debt.

Overview of the Financial Statements

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The *basic financial statements* include two kinds of statements that present different views of the District. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances in a manner similar to a private sector business reporting on a full accrual basis of accounting.

The *Statement of Net Position* presents information on all of the District’s assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District has improved or deteriorated.

The *Statement of Activities* presents information showing how the District’s net position changed during the most recent fiscal 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (example: property taxes assessed but uncollected as of 31 days after year-end).

Because the District’s principal source of revenue is property and sales taxes, the government-wide financial statements are grouped into one function that is supported by taxes (governmental activities).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and account for resources that have been segregated for specific activities or objectives. The District, like other state and local

HAY COUNTY EMERGENCY SERVICES DISTRICT #3
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022

governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal or contractual requirements.

Governmental Funds: The General Fund is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on current fiscal year cash inflows and outflows, as well as balances of resources available for spending at the end of the fiscal year. Such information may be useful in evaluating the District's recent financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the General Fund 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 District's recent financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Fund and government-wide financial statements.

The District maintains two funds, the General Fund and the Debt Service Fund.

Government-Wide Financial Analysis

Net position may serve as a useful indicator of the District's financial position. The District's net position (assets plus deferred outflows less liabilities and deferred inflows) was \$9,697,631 as of December 31, 2022. Capital assets, net of depreciation and related debt, accounted for \$6,582,967 or 68% of the total net position. Capital assets reflect the large investments in facilities and equipment that are necessary to provide adequate fire and rescue operations and emergency services to the community. \$2,807,456 of net position of is unrestricted and available to meet the District's ongoing obligations to citizens and creditors. Governmental activities account for all of the changes in net position at the government-wide reporting level as the District has no business-type activities. The tables below summarize the financial position of the District at December 31, 2022 and 2021 and the results of operations for the same years ended.

<u>Assets</u>	<u>12/31/2022</u>	<u>12/31/2021</u>
Current and other assets	\$5,095,174	\$3,657,231
Capital assets, net of accumulated depreciation	<u>7,622,880</u>	<u>7,915,426</u>
Total assets	<u>12,718,054</u>	<u>11,572,657</u>
<u>Liabilities</u>		
Current and other liabilities	354,376	435,418
Long-term liabilities	<u>1,039,913</u>	<u>1,543,689</u>
Total liabilities	<u>1,394,289</u>	<u>1,979,107</u>
<u>Deferred inflows of resources-property taxes</u>	<u>1,626,134</u>	<u>1,277,740</u>
<u>Net position</u>		
Net investment in capital assets, net of debt	6,582,967	6,772,121
Restricted	307,208	303,886
Unrestricted	<u>2,807,456</u>	<u>1,239,803</u>
Total net position	<u>\$9,697,631</u>	<u>\$8,315,810</u>

HAY COUNTY EMERGENCY SERVICES DISTRICT #3
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022

<u>Revenues</u>	<u>12/31/2022</u>	<u>12/31/2021</u>
Program revenues:		
Charges for services	\$569,051	\$579,466
Operating grants	49,535	302,944
General revenues:		
Property taxes	1,385,668	932,992
Sales taxes	2,211,973	1,980,371
Other	<u>68,687</u>	<u>60,870</u>
Total revenues	<u>4,284,914</u>	<u>3,856,643</u>
 <u>Expenses</u>		
Fire and emergency services	2,266,041	1,849,168
Depreciation	598,143	600,632
Interest expense	<u>38,909</u>	<u>59,095</u>
Total expenses	<u>2,903,093</u>	<u>2,508,895</u>
 Change in net position	1,381,821	1,347,748
Net position, beginning - restated	<u>8,315,810</u>	<u>6,968,062</u>
Net position, ending	<u>\$9,697,631</u>	<u>\$8,315,810</u>

Financial Analysis of the Governmental Funds

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

During the year-ended December 31, 2022, the General Fund reported ending fund balance of \$2,783,016, an increase of \$1,199,341 from the prior year. The District's ending unassigned fund balance was \$2,621,838, which was unencumbered and available for spending at the District's discretion. The District had \$40,000 in committed fund balance at year-end for apparatus repairs.

During the year-ended December 31, 2022, the Debt Service Fund reported ending fund balance of \$302,208, an increase of \$3,322 from the prior year. The District's ending fund balance was restricted for debt service.

General Fund Budgetary Highlights

General Fund revenues were \$16,805 under budget, due primarily to \$142,121 less than anticipated interest and other revenues and \$112,990 less than anticipated in grants, offset by sales tax revenues of \$178,823 more than budget and \$78,432 more than anticipated in property taxes. Expenses for the General Fund were \$1,216,146 less than budget. The budget variance resulted primarily from lower than anticipated capital outlay (\$308,951) and general and administrative (\$206,083), offset by \$164,130 in unbudgeted bad debt expenses. Additionally, the budget for contingency reserves of \$805,594 was not used. The variances in all other expenses were not individually significant, but combined were \$59,643 less than budget. The budget was amended during the year to increase the budgets for all revenue streams and to increase the budget for expenses primarily for personnel, apparatus, general and administrative, personal equipment, and contingency reserves.

HAY COUNTY EMERGENCY SERVICES DISTRICT #3
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022

Capital Assets

The District’s capital assets, net of accumulated depreciation, were \$7,622,880 at year-end. Capital assets decreased by \$292,546, due to additions of equipment, furniture and equipment, vehicles, and work in progress of \$305,597, offset by depreciation expense of \$598,143.

Debt

The District’s long-term debt at December 31, 2022, net of the current portion, amounted to \$820,786. The current portion of long-term debt was \$219,127. The debt is collateralized by an interest in sales tax revenues.

Economic Factors, Future Years’ Budgets and Tax Rates

The October 2022 tax rate of \$.10 per \$100 of assessed valuation for 2023 year remained the same as 2022.

The tax levy for the 2023 year is expected to provide an approximately \$235,000 increase in property tax revenues for the next year. Additionally, the District collects sales tax revenues. The budget for fiscal 2023 sales taxes is \$1,625,000 however, monthly collections for the first four months of 2023 were approximately \$707,000.

The District considers many factors when approving budgets for the next year’s activities. With increased tax revenues, the District’s budget for operating expenses is expected to increase a proportional amount to support increased services.

Request for Information

This financial report is designed to provide a general overview of the finances of the District for all parties with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Hays County Emergency Services District #3
3528 Hunter Road
San Marcos, TX 78666

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3
STATEMENT OF NET POSITION
DECEMBER 31, 2022

ASSETS	<u>Governmental Activities</u>
Cash and cash equivalents	\$2,966,769
Due from other governments	637,735
Property taxes receivable, net of allowance of \$6,690	916,154
Sales tax receivable	375,773
Other receivables	77,565
Prepaid expenses and inventory	<u>121,178</u>
	<u>5,095,174</u>
Capital assets:	
Land	126,078
Work in progress	521,131
Other capital assets, net of accumulated depreciation	<u>6,975,671</u>
	<u>7,622,880</u>
	<u>12,718,054</u>
 LIABILITIES	
Accounts payable	16,932
Accrued liabilities	108,890
Texas Fire Academy deposits	228,554
Long-term liabilities:	
Due within one year	219,127
Due in more than one year	<u>820,786</u>
	<u>1,394,289</u>
DEFERRED INFLOWS OF RESOURCES- property taxes levied for subsequent period	<u>1,626,134</u>
 NET POSITION	
Net investment in capital assets	6,582,967
Restricted-debt service	307,208
Unrestricted	<u>2,807,456</u>
	<u><u>\$9,697,631</u></u>

The accompanying notes are an integral part of this financial statement presentation.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2022

Functions/Programs		<u>Program Revenues</u>		Net (Expenses) Revenue and Change in Net Position
<u>Primary government:</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating grants and Contributions</u>	<u>Governmental Activities</u>
Government activities:				
General government	\$2,864,184	\$569,051	\$49,535	(\$2,245,598)
Interest expense	<u>38,909</u>	<u>0</u>	<u>0</u>	<u>(38,909)</u>
	<u>\$2,903,093</u>	<u>\$569,051</u>	<u>\$49,535</u>	<u>(2,284,507)</u>
 <u>General Revenues:</u>				
Property taxes				1,385,668
Sales tax				2,211,973
Interest and other				<u>68,687</u>
				<u>3,666,328</u>
Change in net position				1,381,821
Net position- beginning, restated				<u>8,315,810</u>
Net position-ending				<u>\$9,697,631</u>

The accompanying notes are an integral part of this financial statement presentation.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$2,659,561	\$307,208	\$2,966,769
Due from other governments	637,735	0	637,735
Property taxes receivable, net of allowance of \$6,690	916,154	0	916,154
Sales tax receivable	375,773	0	375,773
Other receivables	77,565	0	77,565
Prepaid expenses and inventory	<u>121,178</u>	<u>0</u>	<u>121,178</u>
	<u>\$4,787,966</u>	<u>\$307,208</u>	<u>\$5,095,174</u>
LIABILITIES			
Accounts payable	\$16,932	\$0	\$16,932
Accrued expenses	74,996	0	74,996
Texas Fire Academy deposits	<u>228,554</u>	<u>0</u>	<u>228,554</u>
	<u>320,482</u>	<u>0</u>	<u>320,482</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes levied for subsequent period	1,626,134	0	1,626,134
Unavailable revenue – delinquent property taxes	<u>58,334</u>	<u>0</u>	<u>58,334</u>
	<u>1,684,468</u>	<u>0</u>	<u>1,684,468</u>
FUND BALANCES			
Nonspendable	121,178	0	121,178
Restricted- debt service	0	307,208	307,208
Committed -apparatus repairs	40,000	0	40,000
Unassigned	<u>2,621,838</u>	<u>0</u>	<u>2,621,838</u>
	<u>2,783,016</u>	<u>307,208</u>	<u>3,090,224</u>
	<u>\$4,787,966</u>	<u>\$307,208</u>	<u>\$5,095,174</u>

The accompanying notes are an integral part of this financial statement presentation.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION**

DECEMBER 31, 2022

Total Fund Balances - Governmental Funds	\$3,090,224
Increase net position for capital assets not reported in the fund financial statements	7,622,880
Property taxes to be received more than 60 days after year end are unavailable to be spent and thus are deferred inflows in the fund financial statements.	58,334
Accrued leave not reported in the fund statements as it is not paid with current resources	(32,525)
Long-term debt not reported in the fund statements as it is not paid with current resources	(1,039,913)
Accrued interest not reported in the fund financial statements because it is not payable with current resources	<u>(1,369)</u>
Net Position of Governmental Activities	<u>\$9,697,631</u>

The accompanying notes are an integral part of this financial statement presentation.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

**GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES**

YEAR ENDED DECEMBER 31, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUE			
Property taxes	\$1,383,847	\$0	\$1,383,847
Sales tax	2,211,973	0	2,211,973
Texas Fire Academy charges for service	569,051	0	569,051
Grants	49,535	0	49,535
Interest and other	<u>65,365</u>	<u>3,322</u>	<u>68,687</u>
	<u>4,279,771</u>	<u>3,322</u>	<u>4,283,093</u>
EXPENDITURES			
Current service operations:			
Personnel	1,128,659	0	1,128,659
Texas Fire Academy	237,761	0	237,761
Apparatus	193,605	0	193,605
General and administrative	188,303	0	188,303
Bad debt	164,130	0	164,130
Station repairs, maintenance and supplies	118,369	0	118,369
Training	83,905	0	83,905
Personal equipment	61,090	0	61,090
Communications	57,694	0	57,694
Debt service-principal	503,776	0	503,776
Debt service-interest	37,541	0	37,541
Capital outlay	<u>305,597</u>	<u>0</u>	<u>305,597</u>
	<u>3,080,430</u>	<u>0</u>	<u>3,080,430</u>
Net change in fund balance	1,199,341	3,322	1,202,663
Beginning fund balance, restated	<u>1,583,675</u>	<u>303,886</u>	<u>1,887,561</u>
Ending fund balance	<u>\$2,783,016</u>	<u>\$307,208</u>	<u>\$3,090,224</u>

The accompanying notes are an integral part of this financial statement presentation.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2022

Net Change in Fund Balances - Governmental Funds	\$1,202,663
Change in delinquent tax revenues deferred in the fund statements	1,821
Depreciation expense is not reflected in the governmental funds	(598,143)
Capital outlays recognized as expenditures in the fund statements	305,597
Long-term debt payments recognized as expenditures in the fund statements	503,776
Change in accrued leave not reported in the fund statements	(32,525)
Change in accrued interest on long-term debt not reported in the fund statements	<u>(1,368)</u>
Change in Net Position of Governmental Activities	<u>\$1,381,821</u>

The accompanying notes are an integral part of this financial statement presentation.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

NOTE 1: REPORTING ENTITY

The Hays County Emergency Services District #3 (the District) is a political subdivision of the State of Texas formed in July 1998 pursuant to Section 775 of the Texas Health and Safety Code. The District was formed to provide fire and rescue operations and emergency services to the citizens of its District. The District also provides a fire training academy. The District is governed by a five-member Board of Commissioners appointed by the Hays County Commissioners Court. include all parts of Gonzales and Caldwell counties that are over these reservoirs.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the District conform to U.S. generally accepted accounting principles applicable to state and local governments promulgated by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) and by the Financial Accounting Standards Board (when applicable). The following is a summary of the significant accounting policies.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's activities with the interfund activities removed. Governmental activities include programs supported primarily by taxes and fees charged to purveyors.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's government activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the Statement of Activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

The District segregates transactions related to certain functions or transactions in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental activities. Major funds are determined by criteria specified by GASB. Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources.

The District reports the following major governmental funds:

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Fund- the General Fund is the primary operating fund of the District. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this 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 associated with the construction of the Hunter Road Station.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period in which they become susceptible to accrual, i.e. 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 (defined by the District as collected within 60 days of year end). Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The reported fund balance of governmental funds is considered a measure of available spendable resources.

RESTRICTED RESOURCES AND FUND BALANCE SPENDING

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.

The revenues susceptible to accrual are property taxes, sales tax, charges for services, grants and interest income. All other governmental revenues are recognized when received, as they are deemed immaterial.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in demand accounts, certificates of deposit, savings accounts, and short-term highly liquid investments with original maturities of 3 months or less.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PROPERTY TAXES

The District has the authority to levy a tax to a maximum of \$0.10 per \$100 of value. Ad valorem taxes are levied each October 1 on the assessed valuation of all taxable property in the District. The tax rate for the October 1, 2022 levy was \$0.10 per \$100 of value. Taxes are due upon receipt of the bill and are delinquent if not paid before the first day of February in the year following levy. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed. Taxes are billed and collected by the Hays County Tax Assessor-Collector.

BUDGET

The District adopts annual budgets for the General Fund. The District amends the budgets as needed during the year. All annual appropriations lapse at fiscal year-end.

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

INVENTORY

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.

TEXAS FIRE ACADEMY DEPOSITS

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

CAPITAL ASSETS

All capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their estimated fair value at the date of the donation. Repairs and maintenance are recorded as expenditures or expenses; renewals and betterments are capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method, over 5-30 years.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DEFERRED INFLOWS OF RESOURCES

The statement of financial position and governmental funds balance sheet report a separate section for deferred inflows of resources representing an acquisition of net position that applies to a future period and is not recognized as an inflow of resources or revenue until that time.

The District has one type of item which qualifies for reporting in this category- property taxes. The collection of taxes from the October 1, 2022 levy are considered deferred inflows of resources until the subsequent calendar year in the statement of financial position and in the governmental funds balance sheet. Unavailable revenue for delinquent taxes is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow in the period that they become available.

NET POSITION

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. 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.

FUND BALANCES

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District can establish limitations on the use of resources through either a commitment or an assignment. When both unassigned and committed or assigned funds are available for expenditure, committed or assigned funds are used first.

Committed fund balances include amounts that can only be used for specific purposes determined by a formal action of the Board or adoption of an ordinance. Limitations imposed by commitments remain in place until formal Board action is taken to remove the limitation. Amounts in the assigned fund balances are intended to be used by the District for specific purposes but do not meet the criteria to be committed. Assignments are generally temporary and do not require Board action to be taken to remove the assignment.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

TRANSACTIONS BETWEEN FUNDS

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Transactions between funds that would be treated as revenues, expenditures or expenses if they involved organizations external to the government unit are accounted for as revenues, expenditures or expenses in the funds involved. Transactions which constitute reimbursement for expenditures or expenses initially made from a fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund, and as reductions of the expenditures or expenses in the fund that is reimbursed.

NOTE 3: DEPOSITS WITH FINANCIAL INSTITUTIONS

The District does not have a formal investment policy. At year-end, the carrying amount of the District's deposits was \$2,966,769 and the bank balance was \$3,067,935. All of the District's deposits in excess of FDIC coverage were fully collateralized by securities held by the pledging financial institution.

NOTE 4: BUDGET VARIANCES

Total General Fund revenues were \$16,805 under budget due lower than anticipated interest and other and grants, which were offset by higher than anticipated property and sales taxes. General Fund expenditures were under budget by \$1,216,146, lower than anticipated capital outlay and general and administrative expenditures, offset by unbudgeted bad debt expense. Additionally, budgeted expenditures for contingency reserves of \$805,594 were not incurred. The variances in all other expense line items combined were not significant.

NOTE 5: RELATED PARTY TRANSACTIONS

The District utilizes a contract financial consultant to perform some of its accounting and related bookkeeping functions. This individual also served on the Board of Commissioners during the year and was paid \$65,000 for services during 2022.

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss including general liability, property damage, and worker's compensation. The District maintains commercial insurance coverage for these types of risks.

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

NOTE 7: CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$126,078	\$0	\$0	\$126,078
Work in progress	<u>372,948</u>	<u>206,646</u>	<u>(58,463)</u>	<u>521,131</u>
	<u>499,026</u>	<u>206,646</u>	<u>(58,463)</u>	<u>647,209</u>
Capital assets being depreciated:				
Stations	6,941,447	8,588	0	6,950,035
Equipment	1,830,329	80,167	(17,210)	1,893,286
Trucks, vehicles and boats	3,895,978	45,753	0	3,941,731
Furniture and equipment	177,854	13,513	0	191,367
Computers and software	<u>336,492</u>	<u>9,393</u>	<u>0</u>	<u>345,885</u>
	<u>13,182,100</u>	<u>157,414</u>	<u>(17,210)</u>	<u>13,322,304</u>
	<u>13,681,126</u>	<u>364,060</u>	<u>(75,673)</u>	<u>13,969,513</u>
Accumulated depreciation:				
Stations	(1,765,612)	(231,405)	0	(1,997,017)
Equipment	(1,062,214)	(143,260)	17,210	(1,188,264)
Trucks, vehicles and boats	(2,563,867)	(195,589)	0	(2,759,456)
Furniture and equipment	(155,055)	(7,380)	0	(162,435)
Computers and software	<u>(218,952)</u>	<u>(20,509)</u>	<u>0</u>	<u>(239,461)</u>
	<u>(5,765,700)</u>	<u>(598,143)</u>	<u>17,210</u>	<u>(6,346,633)</u>
	<u>\$7,915,426</u>	<u>(\$234,083)</u>	<u>(\$58,463)</u>	<u>\$7,622,880</u>

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

General administration	\$564,154
Texas Fire Academy	<u>33,989</u>
	<u>\$598,143</u>

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

NOTE 8: LONG-TERM LIABILITIES

<u>Asset Acquired</u>	<u>Original Issue</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Hunter Rd. Station	<u>\$2,032,599</u>	2029	3%	<u>\$1,543,689</u>	<u>\$0</u>	<u>\$503,776</u>	\$1,039,913
						Less: Current Portion	<u>(219,127)</u>
						Long-term Portion	<u>\$820,786</u>

Maturities at December 31:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$219,127	\$24,088	\$243,215
2024	221,495	21,719	243,214
2025	228,232	14,982	243,214
2026	235,173	8,041	243,214
2027	<u>135,886</u>	<u>5,989</u>	<u>141,875</u>
	<u>\$1,039,913</u>	<u>\$74,819</u>	<u>\$1,114,732</u>

The District’s long-term debt is secured by the assignment of Ad Valorem property taxes and the required establishment of a debt service fund equivalent to the payments due during the next fiscal year. Accordingly, \$307,208 is reported as restricted fund balance in the statement of net position and the governmental funds balance sheet. The District was in compliance with all requirements of the loan agreement at year-end.

NOTE 9: PRIOR PERIOD ADJUSTMENT

At December 31, 2021, accounts receivable were understated by \$1,439,144, deferred inflows of resources related to property taxes were understated by \$1,277,740 and net position was understated by \$161,404 in the government-wide statement of net position. The change in unrestricted net position was understated by the same amount. A prior period adjustment was recorded to correct beginning unrestricted net position.

Beginning net position, as previously reported	\$8,154,406
Prior period adjustment	<u>161,404</u>
Beginning net position, as restated	<u>\$8,315,810</u>

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3

NOTES TO FINANCIAL STATEMENTS

NOTE 9: PRIOR PERIOD ADJUSTMENT

At December 31, 2021, accounts receivable were understated by \$1,439,144, deferred inflows of resources related to property taxes were understated by \$1,277,740, unearned revenue was understated by \$291,853, and unassigned fund balance was overstated by \$130,449 in the governmental funds balance sheet. The change in unassigned fund balance was understated by the same amount. A prior period adjustment was recorded to correct beginning unassigned fund balance.

Beginning fund balance, as previously reported	\$2,018,010
Prior period adjustment	<u>(130,449)</u>
Beginning fund balance, as restated	<u>\$1,887,561</u>

HAYS COUNTY EMERGENCY SERVICES DISTRICT #3
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUE				
Property taxes	\$1,288,166	\$1,305,415	\$1,383,847	\$78,432
Sales tax	1,500,000	2,033,150	2,211,973	178,823
Texas Fire Academy charges for service	575,000	588,000	569,051	(18,949)
Grants	32,500	162,525	49,535	(112,990)
Interest and other	<u>39,300</u>	<u>207,486</u>	<u>65,365</u>	<u>(142,121)</u>
	<u>3,434,966</u>	<u>4,296,576</u>	<u>4,279,771</u>	<u>(16,805)</u>
EXPENDITURES				
Current service operations:				
Personnel	1,028,800	1,093,150	1,128,659	(35,509)
Texas Fire Academy	281,600	282,125	237,761	44,364
Apparatus	105,000	176,000	193,605	(17,605)
General and administrative	168,400	394,386	188,303	206,083
Bad debt	0	0	164,130	(164,130)
Station repairs, maintenance and supplies	115,500	118,000	118,369	(369)
Training	62,300	75,700	83,905	(8,205)
Personal equipment	90,000	121,000	61,090	59,910
Communications	73,000	65,500	57,694	7,806
Contingency reserves	357,193	805,594	0	805,594
Debt service-principal	503,785	503,803	503,776	27
Debt service-interest	49,388	46,770	37,541	9,229
Capital outlay	<u>600,000</u>	<u>614,548</u>	<u>305,597</u>	<u>308,951</u>
	<u>3,434,966</u>	<u>4,296,576</u>	<u>3,080,430</u>	<u>1,216,146</u>
Net change in fund balance	<u>0</u>	<u>0</u>	<u>1,199,341</u>	<u>1,199,341</u>
Beginning fund balance, restated	<u>1,583,675</u>	<u>1,583,675</u>	<u>1,583,675</u>	<u>1,583,675</u>
Ending fund balance	<u>\$1,583,675</u>	<u>\$1,583,675</u>	<u>\$2,783,016</u>	<u>\$2,783,016</u>

See independent auditor's report.