

**JACKSON COUNTY EMERGENCY SERVICES  
DISTRICT NO. 3**

A Component Unit of Jackson County, Texas

*ANNUAL FINANCIAL REPORT  
For the year ended September 30, 2016*

**JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3**  
*ANNUAL FINANCIAL REPORT*  
*September 30, 2016*

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**FINANCIAL SECTION**



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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Jackson County Emergency Services District No. 3  
Edna, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Jackson County Emergency Services District No. 3 (the "District") a component unit of Jackson County, Texas, as of and for the year ended September 30, 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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

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 September 30, 2016, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Harrison, Waldrop & Uherek, LLP*

HARRISON, WALDROP & UHEREK, L.L.P.  
Certified Public Accountants

May 18, 2017

**JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*September 30, 2016*

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In this section of the Annual Financial Report, we, the managers of Jackson County Emergency Services District No. 3 (the "District"), discuss and analyze the District's financial performance for the year ended September 30, 2016. Please read it in conjunction with the independent auditors' report on page 1 and the District's basic financial statements, which begin on page 7.

**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 financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 7 through 10). These statements provide information about the activities of the District as a whole and present a longer-term view of the District's financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (also on pages 7 through 10) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget.

The notes to financial statements (starting on page 11) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

**Government-wide Financial Statements**

*The Statement of Net Position and the Statement of Activities*

The analysis of the District's overall financial condition and operations is on pages 7 through 10. Its primary purpose is to show whether the District's financial condition improved or declined as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year, while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These statements apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All of the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current year or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or declining. To fully assess the overall health of the District, however, one should consider non-financial factors as well, such as changes in the District's property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we disclose the District's one type of activity:

*Governmental activities* - All of the District's basic services are reported here. Property taxes, operating grants and contributions, and unrestricted investment earnings finance most of these activities.

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**OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)****Fund Financial Statements**

The fund financial statements also are included on pages 7 through 10 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds. The District's administration can establish other funds, such as debt service and capital projects, to help it control and manage money for particular purposes. The District has only one fund, the General Fund, which is governmental.

*Governmental funds* - All of the District's basic services are reported in governmental funds, which use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds, as shown in the adjustments column, in reconciliation schedules immediately following the financial statements on pages 7 through 10.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position serves over time as a useful indicator of a government's financial position. The assets of the District exceeded its liabilities at the close of the year ended September 30, 2016, by \$617,007, of which \$231,499 is available to meet the District's ongoing obligations.

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**Table I**  
**Jackson County Emergency Services District No. 3**  
**NET POSITION**

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	<u>Governmental Activities</u>		<u>Total % Change</u>
	<u>2016</u>	<u>2015</u>	
<b>ASSETS</b>			
Current assets	\$ 249,372	\$ 136,375	82.86%
Capital assets (net)	485,508	-	N/A
<b>Total assets</b>	<u>734,880</u>	<u>136,375</u>	438.87%
<b>LIABILITIES</b>			
Current liabilities	36,635	4,597	696.93%
Noncurrent liabilities	81,238	-	N/A
<b>Total liabilities</b>	<u>117,873</u>	<u>4,597</u>	2464.13%
<b>NET POSITION</b>			
Net investment in capital assets	385,508	-	N/A
Unrestricted net position	231,499	131,778	75.67%
<b>Total net position</b>	<u>\$ 617,007</u>	<u>\$ 131,778</u>	368.22%

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

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**Table II**  
**Jackson County Emergency Services District No. 3**  
**CHANGES IN NET POSITION**

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	Governmental Activities		Total % Change
	2016	2015	
<b>REVENUES</b>			
General revenues			
Tax collections	\$ 659,368	\$ 575,571	14.56%
Penalty and interest	303	-	N/A
Investment earnings	1,126	-	N/A
Grants and donations	80,044	-	N/A
Miscellaneous income	993	-	N/A
<b>Total revenues</b>	<u>741,834</u>	<u>575,571</u>	28.89%
<b>EXPENSES</b>			
General government	<u>653,665</u>	<u>492,119</u>	32.83%
<b>Total expenses</b>	<u>653,665</u>	<u>492,119</u>	32.83%
Special item - transfer of operations	397,060	-	N/A
Change in net position	485,229	83,452	481.45%
<b>Net position - January 1</b>	<u>131,778</u>	<u>48,326</u>	172.69%
<b>Net position - September 30</b>	<u>\$ 617,007</u>	<u>\$ 131,778</u>	368.22%

The District's total revenues increased due to an increase in taxes and donations and grants.

Total expenses increased approximately 33% from the prior year. Since the District assumed full responsibility for the cost of fire suppression the overall expense to the district was higher.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At September 30, 2016, the District's General Fund reported an ending fund balance of \$208,748, which is an increase of \$92,388 in comparison with the prior year. The General Fund's fund balance was 31.93% of total General Fund expenditures at year-end.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the General Fund's final amended budget and actual was a positive variance of \$92,388. This was mainly due to the District having a positive variance in the loan proceeds of \$100,000.

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## **CAPITAL ASSETS**

At September 30, 2016, the District had \$485,508 net of accumulated depreciation, invested in a range of capital assets, most of which relates to machinery and equipment. This amount represents a net increase of \$485,508 from the prior year.

More detailed information about the District's capital assets is presented in Note 6 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's Commissioners considered various factors when setting the 2017 budget and tax rate. Some factors considered, included routine maintenance projects for equipment fees to be paid for contracted services, and expected administrative costs.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Jackson County Emergency Services District No. 3, 315 West Main, Edna, Texas 77957.

## **BASIC FINANCIAL STATEMENTS**

**JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET**  
September 30, 2016

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 217,261	\$ -	\$ 217,261
Taxes receivable (net)	22,751	-	22,751
Due from other governments	9,360	-	9,360
Capital assets			
Capital assets not being depreciated			
Construction in progress	-	92,489	92,489
Machinery and equipment (net)	-	393,019	393,019
<b>Total assets</b>	<u>249,372</u>	<u>485,508</u>	<u>734,880</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	3,668	-	3,668
Accrued expenses	14,205	-	14,205
Loan payable	-	18,762	18,762
Total current liabilities	<u>17,873</u>	<u>18,762</u>	<u>36,635</u>
Noncurrent liabilities			
Loan payable	-	81,238	81,238
<b>Total liabilities</b>	<u>17,873</u>	<u>100,000</u>	<u>117,873</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	<u>22,751</u>	<u>(22,751)</u>	<u>-</u>
<b>Total deferred inflows of resources</b>	<u>22,751</u>	<u>(22,751)</u>	<u>-</u>
<b>FUND BALANCES/NET POSITION</b>			
Fund balance			
Unassigned	<u>208,748</u>	<u>(208,748)</u>	<u>-</u>
<b>Total fund balances</b>	<u>208,748</u>	<u>(208,748)</u>	<u>-</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 249,372</u>		
Net position			
Net investment in capital assets		385,508	385,508
Unrestricted		<u>231,499</u>	<u>231,499</u>
<b>Total net position</b>		<u>\$ 617,007</u>	<u>\$ 617,007</u>

The accompanying notes are an integral part of this statement.

**JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3**

*RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION  
OF GOVERNMENTAL ACTIVITIES*

*September 30, 2016*

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<b>Total governmental fund balance</b>		<b>\$ 208,748</b>
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 558,523	
Accumulated depreciation	<u>(73,015)</u>	485,508
Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Loan payable		(100,000)
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as "unavailable" in the funds financial statements.		<u>22,751</u>
<b>Net position of governmental activities</b>		<b><u>\$ 617,007</u></b>

The accompanying notes are an integral part of this statement.

**JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE**  
*For the year ended September 30, 2016*

	General Fund	Adjustments	Statement of Activities
<b>EXPENDITURES</b>			
Current			
Personnel	\$ 328,322	\$ -	\$ 328,322
Professional services	10,082	-	10,082
Materials and supplies	27,489	-	27,489
Maintenance	42,537	-	42,537
Administrative			
Commissioners' training	1,703	-	1,703
Insurance	14,502	-	14,502
Utilities	4,937	-	4,937
Dues	1,369	-	1,369
Travel	3,592	-	3,592
Training school	2,422	-	2,422
Other	5,882	-	5,882
Contract services			
Appraisal district	22,500	-	22,500
City of Edna	115,313	-	115,313
Capital outlay	161,463	(161,463)	-
Depreciation	-	73,015	73,015
<b>Total expenditures</b>	<b>742,113</b>	<b>(88,448)</b>	<b>653,665</b>
<b>REVENUES</b>			
General revenues			
Tax revenues			
Tax collections	652,035	7,333	659,368
Penalty and interest	303	-	303
Investment earnings	1,126	-	1,126
Grants and donations	80,044	-	80,044
Miscellaneous	993	-	993
<b>Total revenues</b>	<b>734,501</b>	<b>7,333</b>	<b>741,834</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(7,612)</b>	<b>95,781</b>	<b>88,169</b>
<b>OTHER FINANCING SOURCES</b>			
Loan proceeds	100,000	(100,000)	-
<b>Total other financing sources</b>	<b>100,000</b>	<b>(100,000)</b>	<b>-</b>
Net change in fund balances	92,388	(92,388)	-
<b>SPECIAL ITEM</b>			
Transfer of operations from the City of Edna	-	397,060	397,060
<b>Change in net position</b>	<b>-</b>	<b>485,229</b>	<b>485,229</b>
<b>FUND BALANCE/NET POSITION</b>			
Beginning of year	116,360	15,418	131,778
<b>End of year</b>	<b>\$ 208,748</b>	<b>\$ 408,259</b>	<b>\$ 617,007</b>

The accompanying notes are an integral part of this statement.

**JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3**

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

For the year ended September 30, 2016

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<b>Total net change in fund balances - governmental funds</b>	<b>\$ 92,388</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Increase in capital assets	\$ 161,463
Assets transferred from City of Edna	397,060
Depreciation	<u>(73,015)</u> 485,508
Current year proceeds on long-term debt are other financing sources in the fund financial statements, but they serve to increase long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:	
Loan proceeds	(100,000)
Some property taxes will not be collected for several months after the District's year ends; they are not considered "available" revenues and are reported as "unavailable" in the governmental funds.	
	<u>7,333</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ 485,229</u></b>

The accompanying notes are an integral part of this statement.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Jackson County Emergency Services District No. 3 (the "District") was legally created and formed on May 17, 2013.

The Commissioners are appointed by the Commissioners' Court of Jackson County and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters including taxing authority. The District is a component unit of Jackson County in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14. The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governments.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines the reporting entity consists of the primary government (all funds of the District), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of the relationship with the primary government is such that exclusion could cause the District's financial statements to be misleading or incomplete. Under these guidelines there are not any entities that are considered to be component units. The District receives funding from taxes, interest and donations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ended September 30, 2016. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

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 60 days of the end of the current 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.

Property taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The District reports no other fund types.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

The Commissioners prepare and vote on the adopted budget. The budget for the General Fund is adopted on a basis consistent with generally GAAP. All budget amendments must be approved by the Commissioners. The District does not employ the use of encumbrances in its budgetary accounting.

E. Other Accounting Policies

Cash and Investments

Cash and cash equivalents include amounts in petty cash, demand deposits, time deposits, and any investment purchased with an original maturity date of 90 days or less.

The District may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

E. Other Accounting Policies - (Continued)

Cash and Investments - (Continued)

The District has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the District are in compliance with the District's investment policies.

Receivables

All property tax receivables are shown net of an allowance for uncollectibles.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide statement of net position. The District defines capital assets, other than infrastructure assets, as assets with an estimated useful life in excess of one year, regardless of cost. The District reports infrastructure assets on a system basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported regardless of their amount. In the case of the initial capitalization of general infrastructure assets, the District chose to include all such items acquired on or after January 1, 2004.

As the District constructs or acquires capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original amount. In the case of donations, the District values these capital assets at the estimated fair market value at the date of donation.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements other than buildings	50
System infrastructure	30
Machinery and equipment	5
Office equipment and fixtures	5

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

E. Other Accounting Policies - (Continued)

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities in the applicable governmental activities statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The District did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2016. This Statement did not have an impact on the District's functions, financial position or results of operations.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires management to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

The preparation of financial statements in conformity with GAAP requires the use of the management's estimates.

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**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Excess of Expenditures Over Appropriations

For the fiscal year ended September 30, 2016, the District complied with budgetary restrictions at all function levels except as detailed in the following table:

<u>Fund/Function</u>	<u>Expenditure Variance</u>
General Fund	
Maintenance	\$ 14,037
Dues	169
Travel	992
Other	882
City of Edna contract services	313
Capital outlay	81,463

**NOTE 3: DEPOSITS AND INVESTMENTS**

The District's has a depository contract with Prosperity Bank to hold the District's funds. As of September 30, 2016, the District's depository bank had not pledged any collateral to cover its deposits in excess of \$250,000. Collateral was pledged in the latter part of the District's fiscal year. There were times during the 2016 fiscal period where the District's deposits were not entirely insured or collateralized.

Deposits

At September 30, 2016, the carrying amount of the District's deposits was \$217,261. The District's deposits consist of a public fund contractual non-interest checking account. Bank deposits are held at Prosperity Bank, the District's depository bank. At fiscal year-end, total bank deposits were \$217,261. The FDIC covered \$217,261.

The cash deposits held at the financial institution can be categorized according to three levels of risk.

- Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entities name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 - Uncollateralized.

Based on these three levels of risk, all of the District's cash deposits are classified as category 1.

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**NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District was not exposed to interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The District was not exposed to credit risk.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to Jackson County by the depository bank in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For an investment, 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. The District was not exposed to custodial credit risk.

**NOTE 4: PROPERTY TAXES RECEIVABLE**

Taxes receivable at September 30, 2016, consisted of the following:

	<u>General Fund</u>
Taxes receivable	\$ 23,870
Less: Allowances	<u>(1,119)</u>
Total net receivables	<u>\$ 22,751</u>

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. Taxes are delinquent by February 1 following the October 1 levy date. A statutory lien becomes effective on all property with unpaid taxes as of January 1 of the year following the assessment. Taxes are billed and collected by the Jackson County Appraisal District.

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**NOTE 4: PROPERTY TAXES RECEIVABLE - (Continued)**

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically written off, but the District is prohibited from writing off real property taxes without specific statutory authority from Texas Legislature. The District has no allowance for uncollectible tax receivables. The amount is not considered material.

Property taxes levied for 2015 were \$661,340 with a maintenance tax rate set at \$0.10 per \$100 valuation. The assessed value at January 1, 2015, upon which the 2015 levy was based, was \$661,340,000.

The District's General Fund reports unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At September 30, 2016, all unavailable revenues reported by the District relate to ad valorem taxes.

**NOTE 5: DUE FROM OTHER GOVERNMENTS**

At September 30, 2016, the Jackson County Tax Assessor and Collector held tax receipts in the amount of \$1,581 that had been collected for, but not yet remitted to the District. In addition, the District had certain receivables from the Texas A & M Forest Service of \$7,779 for a total amount reflected as due from other governments of \$9,360.

**NOTE 6: CAPITAL ASSETS**

The District's capital asset activity for the year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Construction in progress	<u>\$ -</u>	<u>\$ 92,489</u>	<u>\$ -</u>	<u>\$ 92,489</u>
Total capital assets not being depreciated	<u>-</u>	<u>92,489</u>	<u>-</u>	<u>92,489</u>
Capital assets, being depreciated				
Machinery and equipment	<u>-</u>	<u>466,034</u>	<u>-</u>	<u>466,034</u>
Total capital assets being depreciated	<u>-</u>	<u>466,034</u>	<u>-</u>	<u>466,034</u>
Less accumulated depreciation for				
Machinery and equipment	<u>-</u>	<u>(73,015)</u>	<u>-</u>	<u>(73,015)</u>
Total accumulated depreciation	<u>-</u>	<u>(73,015)</u>	<u>-</u>	<u>(73,015)</u>
Total capital assets being depreciated, net	<u>-</u>	<u>393,019</u>	<u>-</u>	<u>393,019</u>
Governmental activities capital assets, net	<u>\$ -</u>	<u>\$ 485,508</u>	<u>\$ -</u>	<u>\$ 485,508</u>

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**NOTE 7: LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2016 for governmental activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Loans payable	\$ -	\$ 100,000	\$ -	\$ 100,000	\$ 18,762
Total governmental activity long-term liabilities	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 18,762</u>

Note payable for the purchase and refurbishment of a fire truck in May 2016. The interest is fixed at 3.195%. Annual payments of \$21,957 in May of each year through May 2021.

The note payable is payable from non-tax revenues generated by the District.

Annual debt service requirements to maturity for the note payable is as follows:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 18,762	\$ 3,195	\$ 21,957
2018	19,362	2,596	21,958
2019	19,980	1,977	21,957
2020	20,619	1,339	21,958
2021	21,277	680	21,957
Total	<u>\$ 100,000</u>	<u>\$ 9,787</u>	<u>\$ 109,787</u>

**NOTE 8: CONTINGENCIES**Legal Proceedings

At September 30, 2016, the District had no pending or threatened litigation.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding coverage.

**NOTE 9: RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS**

The District started the operations for the fire suppression service as of January 1, 2016. Prior to this date the District had no employees. Beginning January 1, 2016, the District's employees are covered by the Texas County District Retirement System (TCDRS). All eligible employees are required to contribute 7% of their pay into the plan and the District contributes 11.03%. As of September 30, 2016, there has not been a calculation of the potential unfunded liability, therefore no liability is recorded in the accompanying financial statements as of September 30, 2016.

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**NOTE 10: ENCUMBRANCES**

The District does not employ encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

**NOTE 11: SUBSEQUENT EVENTS**

No events have occurred subsequent to the balance sheet date that would materially affect the financial statements.

**NOTE 12: SPECIAL ITEM - TRANSFER OF OPERATIONS**

During the 2016 fiscal year, the City of Edna transferred the fire suppression services to the District. The transfer of services to the District occurred on January 1, 2016. As a result of the transfer, certain equipment owned by the City was transferred to the District. The net book value of the transfers amounted to \$397,060. The transfer is recorded as a special item on the accompanying government-wide statement of activities. The District was not considered part of the same reporting entity of the City before or after the transfer. The primary reason for the transfer of services was to achieve a higher level of efficiency of the cost of these services to the taxpayers.

Prior to the transfer of services on January 1, 2016, the District contracted out the fire suppression services to the City of Edna. The contract for these services was from October 1, 2015 to December 31, 2015. The District paid the City \$115,313 for these services for the three months.

**REQUIRED SUPPLEMENTARY INFORMATION**

**JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3***MAJOR GOVERNMENTAL FUNDS - GENERAL FUND**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**BUDGET (GAAP BASIS) AND ACTUAL**For the year ended September 30, 2016*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Tax revenues				
Tax collections	\$ 659,000	\$ 662,500	\$ 652,035	\$ (10,465)
Penalty and interest	-	-	303	303
Investment earnings	-	-	1,126	1,126
Grants and donations	3,000	53,250	80,044	26,794
Miscellaneous	-	-	993	993
<b>Total revenues</b>	<u>662,000</u>	<u>715,750</u>	<u>734,501</u>	<u>18,751</u>
<b>EXPENDITURES</b>				
Current				
Personnel	335,925	340,850	328,322	12,528
Professional services	35,000	35,000	10,082	24,918
Materials and supplies	38,375	33,600	27,489	6,111
Maintenance	26,000	28,500	42,537	(14,037)
Administrative				
Commissioners' training	3,000	3,000	1,703	1,297
Insurance	17,000	15,000	14,502	498
Utilities	15,000	13,000	4,937	8,063
Dues	1,200	1,200	1,369	(169)
Travel	1,000	2,600	3,592	(992)
Training school	5,500	5,500	2,422	3,078
Other	5,000	5,000	5,882	(882)
Contract services				
Appraisal district	19,000	22,500	22,500	-
Tax Assessor	15,000	15,000	-	15,000
City of Edna	115,000	115,000	115,313	(313)
Capital outlay	<u>30,000</u>	<u>80,000</u>	<u>161,463</u>	<u>(81,463)</u>
<b>Total expenditures</b>	<u>662,000</u>	<u>715,750</u>	<u>742,113</u>	<u>(26,363)</u>
Excess (deficiency) of revenues over (under) expenditures (GAAP BUDGETARY BASIS)	-	-	(7,612)	(7,612)
<b>OTHER FINANCING SOURCES</b>				
Loan proceeds	-	-	100,000	100,000
<b>Total other financing sources</b>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Net change in fund balances	-	-	92,388	92,388
Fund balance at beginning of year	<u>116,360</u>	<u>116,360</u>	<u>116,360</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u>\$ 116,360</u>	<u>\$ 116,360</u>	<u>\$ 208,748</u>	<u>\$ 92,388</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

**JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
*September 30, 2016*

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**NOTE 1: BUDGETARY BASIS OF ACCOUNTING**

The District annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

**NOTE 2: BUDGETARY LEGAL COMPLIANCE**

For the fiscal year ended September 30, 2016, the District complied with budgetary restrictions at all function levels except as detailed in the following table:

<u>Fund/Function</u>	<u>Expenditure Variance</u>
General Fund	
Maintenance	\$ 14,037
Dues	169
Travel	992
Other	882
City of Edna contract services	313
Capital outlay	81,463