

JACKSON COUNTY EMERGENCY SERVICES
DISTRICT NO. 3

A Component Unit of Jackson County, Texas

ANNUAL FINANCIAL REPORT
For the year ended September 30, 2018

JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3
ANNUAL FINANCIAL REPORT
September 30, 2018

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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 and each major fund 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, 2018, 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, 2018, and the respective changes in financial position, where applicable, thereof 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, budgetary comparison information, schedule of changes in net pension liability and related ratios and related ratios, and the schedules of employer contributions, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

May 8, 2019

JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

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, 2018. 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.

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 and deferred outflows of the District exceeded its liabilities at the close of the year ended September 30, 2018, by \$713,629, of which \$339,974 is available to meet the District's ongoing obligations.

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

	Governmental Activities		Total % Change
	2018	2017*	
ASSETS			
Current assets	\$ 334,771	\$ 304,567	9.92%
Net pension asset	9,093	4,767	90.75%
Capital assets (net)	<u>435,531</u>	<u>461,473</u>	-5.62%
Total assets	<u>779,395</u>	<u>770,807</u>	1.11%
TOTAL DEFERRED OUT- FLOWS OF RESOURCES	<u>35,858</u>	<u>27,851</u>	28.75%
LIABILITIES			
Current liabilities	58,327	57,938	0.67%
Noncurrent liabilities	<u>41,896</u>	<u>61,876</u>	-32.29%
Total liabilities	<u>100,223</u>	<u>119,814</u>	-16.35%
TOTAL DEFERRED IN- FLOWS OF RESOURCES	<u>1,401</u>	-	N/A
NET POSITION			
Net investment in capital assets	373,655	380,235	-1.73%
Unrestricted net position	<u>339,974</u>	<u>298,609</u>	13.85%
Total net position	<u>\$ 713,629</u>	<u>\$ 678,844</u>	5.12%

* 2017 net position has been restated. See Note 10 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

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

	Governmental Activities		Total % Change
	2018	2017*	
REVENUES			
General revenues			
Tax collections	\$ 673,059	\$ 619,793	8.59%
Penalty and interest	7,610	387	1866.41%
Charges for services	1,150	-	N/A
Investment earnings	1,346	1,218	10.51%
Unrestricted grants	118,222	85,903	37.62%
Miscellaneous income	12,681	51,083	-75.18%
Total revenues	<u>814,068</u>	<u>758,384</u>	7.34%
EXPENSES			
General government	<u>779,283</u>	<u>700,242</u>	11.29%
Total expenses	<u>779,283</u>	<u>700,242</u>	11.29%
Change in net position	34,785	58,142	-40.17%
Net position - October 1, restated	<u>678,844</u>	<u>620,702</u>	9.37%
Net position - September 30	<u>\$ 713,629</u>	<u>\$ 678,844</u>	5.12%

*2017 has been restated. See Note 10 of this report.

The District's total revenues increased mainly due to additional donations. Total expenses increased approximately 11% from the prior year. This increase is mainly due to additional capital outlay and volunteer reimbursements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At September 30, 2018, the District's General Fund reported an ending fund balance of \$274,568, which is an increase of \$20,643 in comparison with the prior year. The General Fund's fund balance was 35.01% 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 \$20,643. This was mainly due to the District having a positive variance in the grants and donations revenue, offset by a negative variance in personnel expenses and capital outlay.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2018, the District had \$435,531 net of accumulated depreciation, invested in machinery and equipment. This amount represents a net decrease of \$25,942 from the prior year.

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

Long-term Debt

At the end of fiscal year 2018, the District had outstanding loans payable in the amount of \$61,876 of which 100% is backed by the full faith and credit of the District

Additional information on the District's debt can be found in Note 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Commissioners considered various factors when setting the 2019 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.

JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2018

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 291,705	\$ -	\$ 291,705
Taxes receivable (net)	41,485	-	41,485
Due from other governments	1,581	-	1,581
Noncurrent assets			
Machinery and equipment (net)	-	435,531	435,531
Net pension asset	-	9,093	9,093
Total assets	<u>334,771</u>	<u>444,624</u>	<u>779,395</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to TCDRS	-	35,858	35,858
Total deferred outflows of resources	<u>-</u>	<u>35,858</u>	<u>35,858</u>
LIABILITIES			
Current liabilities			
Accounts payable	2,229	-	2,229
Accrued expenses	16,489	-	16,489
Accrued compensated absences	-	19,629	19,629
Loan payable	-	19,980	19,980
Total current liabilities	<u>18,718</u>	<u>39,609</u>	<u>58,327</u>
Noncurrent liabilities			
Loan payable	-	41,896	41,896
Total liabilities	<u>18,718</u>	<u>81,505</u>	<u>100,223</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	41,485	(41,485)	-
Deferred inflows related to TCDRS	-	1,401	1,401
Total deferred inflows of resources	<u>41,485</u>	<u>(40,084)</u>	<u>1,401</u>
FUND BALANCES/NET POSITION			
Fund balance			
Unassigned	274,568	(274,568)	-
Total fund balances	<u>274,568</u>	<u>(274,568)</u>	<u>-</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 334,771</u>		
Net position			
Net investment in capital assets		373,655	373,655
Unrestricted		339,974	339,974
Total net position		<u>\$ 713,629</u>	<u>\$ 713,629</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, 2018

Total governmental fund balance		\$ 274,568
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Net pension asset is not a current financial resource and therefore is not reported in the governmental funds balance sheet.		9,093
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	\$ 662,434	
Accumulated depreciation	<u>(226,903)</u>	435,531
Deferred outflows of resources are not reported in the governmental funds:		
Deferred resource outflows related to TCDRS		35,858
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		(61,876)
Accrued compensated absences		(19,629)
Deferred outflows of resources are not reported in the governmental funds:		
Deferred resource outflows related to TCDRS		(1,401)
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>41,485</u>
Net position of governmental activities		<u>\$ 713,629</u>

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, 2018

	General Fund	Adjustments	Statement of Activities
EXPENDITURES			
Current			
Personnel	\$ 461,654	\$ (11,484)	\$ 450,170
Professional services	9,023	-	9,023
Materials and supplies	33,502	-	33,502
Maintenance	34,906	-	34,906
Administrative			
Commissioners' training	644	-	644
Insurance	14,543	-	14,543
Utilities	9,345	-	9,345
Dues	2,289	-	2,289
Travel	7,884	-	7,884
Training school	4,558	-	4,558
Vol reimbursement	20,712	-	20,712
FRO Medical Director Fee	4,142	-	4,142
Other	9,674	-	9,674
Contract services			
Appraisal district	20,753	-	20,753
Capital outlay	131,197	(88,081)	43,116
Debt service	19,362	(19,362)	-
Depreciation	-	86,962	86,962
Total expenditures	<u>784,188</u>	<u>(31,965)</u>	<u>752,223</u>
REVENUES			
General revenues			
Tax revenues			
Tax collections	663,821	9,239	673,060
Penalty and interest	7,610	-	7,610
Charges for services	1,150	-	1,150
Unrestricted investment earnings	1,346	-	1,346
Unrestricted grants and donations	118,222	-	118,222
Gain (loss) on disposition of capital assets	-	(27,062)	(27,062)
Miscellaneous	12,681	-	12,681
Total revenues	<u>804,830</u>	<u>(17,823)</u>	<u>787,007</u>
Excess (deficiency) of revenues over expenditures	20,643	(20,643)	
Change in net position		34,785	34,785
FUND BALANCE/NET POSITION			
Beginning of year, as restated	<u>253,925</u>	<u>445,099</u>	<u>678,844</u>
End of year	<u>\$ 274,568</u>	<u>\$ 459,241</u>	<u>\$ 713,629</u>

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, 2018

Total net change in fund balances - governmental funds	\$	20,643
<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	\$ 88,081	
Depreciation	<u>(86,962)</u>	1,119
The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position.		
		(27,062)
Current year principal payments on long-term debt are expenses in the fund financial statements, but they serve to decrease long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Loan principal payment		19,362
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.		
		9,239
Some items 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. These activities consist of:		
Decrease in compensated absences	550	
Net pension costs	<u>10,934</u>	<u>11,484</u>
Change in net position of governmental activities	\$	<u>34,785</u>

The accompanying notes are an integral part of this statement.

JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

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, 2018. 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.

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. The District has no investments as of September 30, 2018.

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

E. Other Accounting Policies - (Continued)

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, as assets with an estimated useful life in excess of one year, regardless of cost.

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 acquisition 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>
Machinery and equipment	5
Office equipment and fixtures	5

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. The face amount of debt issued is reported as other financing sources. 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 2018. 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.

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

E. Other Accounting Policies - (Continued)

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.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

For the fiscal year ended September 30, 2018, the District complied with budgetary restrictions at all function levels except as detailed in the following table:

<u>Function</u>	<u>Expenditure Variance</u>
Personnel	\$ 25,354
Professional services	23
Materials and supplies	5,202
Dues	189
Travel	4,884
Training school	3,558
Other	1,916
Capital outlay	21,036

These over expenditures were funded by available fund balance in the General Fund.

NOTE 3: DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with the District's investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to less than two years from the time of purchase. However, the District may purchase investments with a longer maturity when it is determined that it can be held to maturity.

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. As of September 30, 2018, and for the year then ended, the District was not exposed to credit risk.

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2018, and for the year then ended, 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 the District 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. All investments held by third parties were fully collateralized and held in the District's name.

NOTE 4: PROPERTY TAXES RECEIVABLE

Taxes receivable at September 30, 2018, consisted of the following:

	<u>General Fund</u>
Taxes receivable	\$ 43,668
Less: Allowances	<u>(2,183)</u>
Total net receivables	<u>\$ 41,485</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.

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.

NOTE 4: PROPERTY TAXES RECEIVABLE - (Continued)

Property taxes levied for the 2017 tax roll were \$677,628 with a maintenance tax rate set at \$0.10 per \$100 valuation. The assessed value at January 1, 2017, upon which the 2017 levy was based, was \$677,628,000.

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, 2018, all unavailable revenues reported by the District relate to ad valorem taxes.

NOTE 5: DUE FROM OTHER GOVERNMENTS

At September 30, 2018, 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.

NOTE 6: CAPITAL ASSETS

The District's capital asset activity for the year ended September 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, being depreciated				
Machinery and equipment	<u>612,385</u>	<u>88,081</u>	<u>38,033</u>	<u>662,434</u>
Total capital assets being depreciated	<u>612,385</u>	<u>88,081</u>	<u>38,033</u>	<u>662,434</u>
Less accumulated depreciation for				
Machinery and equipment	<u>(150,912)</u>	<u>(86,963)</u>	<u>10,972</u>	<u>(226,903)</u>
Total accumulated depreciation	<u>(150,912)</u>	<u>(86,963)</u>	<u>10,972</u>	<u>(226,903)</u>
Total capital assets being depreciated, net	<u>461,473</u>	<u>1,118</u>	<u>27,061</u>	<u>435,531</u>
Governmental activities capital assets, net	<u>\$ 461,473</u>	<u>\$ 1,118</u>	<u>\$ 27,061</u>	<u>\$ 435,531</u>

NOTE 7: LONG-TERM DEBT

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2018 for governmental activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 20,179	\$ -	\$ 550	\$ 19,629	\$ 19,629
Loan payable	<u>81,238</u>	<u>-</u>	<u>19,362</u>	<u>61,876</u>	<u>19,980</u>
Total governmental activity long-term liabilities	<u>\$ 101,417</u>	<u>\$ -</u>	<u>\$ 19,912</u>	<u>\$ 81,505</u>	<u>\$ 39,609</u>

Loan 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 loan payable is payable from non-tax revenues generated by the District.

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

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 19,980	\$ 1,977	\$ 21,957
2019	20,619	1,339	21,958
2020	<u>21,277</u>	<u>680</u>	<u>21,957</u>
Total	<u>\$ 61,876</u>	<u>\$ 3,996</u>	<u>\$ 65,872</u>

NOTE 8: CONTINGENCIESLegal Proceedings

At September 30, 2018, 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: EMPLOYEES' RETIREMENT PLANPlan Description

The District provides retirement and disability benefits for all of its full-time employees through a nontraditional, defined contribution pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 761 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 12.10% for the months of the accounting year in 2017, and 12.0% for the months of the accounting year in 2018.

The deposit rate payable by the employer for calendar year 2018 is the rate of 12.0% as adopted by the governing body of the employer. The employee members deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

NOTE 9: EMPLOYEES' RETIREMENT PLAN - (Continued)

Net Pension Liability

The District's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial cost method	Entry age normal
Amortization method	
Recognition of economic/ demographic gains or losses	Straight-line amortization over expected working life
Recognition of assumptions changes or inputs	Straight-line amortization over expected working life
Asset valuation method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.75%
Salary increases	3.25%
Investment rate of return	8.10%
Retirement age	Based on annual rates of service retirement where deferred members are assumed to retire at the later of: a) age 60 or b) earliest retirement eligibility.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages. Members who become disabled are eligible to commence benefit payments regardless of age. Rates of disability are in a custom table based on TCDRS experience.
Mortality	Mortality rates were based on the RP-2000 tables, depending on status of member, for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

NOTE 9: EMPLOYEES' RETIREMENT PLAN - (Continued)**Net Pension Liability - (Continued)***Actuarial Assumptions - (Continued)*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	11.50%	4.55%
Private Equity	16.00%	7.55%
Global Equities	1.50%	4.85%
International Equities - Developed	11.00%	4.55%
International Equities - Emerging	8.00%	5.55%
Investment-Grade Bonds	3.00%	0.75%
Strategic Credit	8.00%	4.12%
Direct Lending	10.00%	8.06%
Distressed Debt	2.00%	6.30%
REIT Equities	2.00%	4.05%
Master Limited Partnerships	3.00%	6.00%
Private Real Estate Partnerships	6.00%	6.25%

Discount Rate

The discount rate used to measure the total pension liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 9: EMPLOYEES' RETIREMENT PLAN - (Continued)

Net Pension Liability - (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 48,952	\$ 53,719	\$ (4,767)
Changes for the year:			
Service cost	44,417	-	44,417
Interest	7,563	-	7,563
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	11,300	-	11,300
Effect of assumptions changes or inputs	(1,073)	-	(1,073)
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expense	-	(80)	80
Member contributions	-	21,022	(21,022)
Net investment income	-	8,759	(8,759)
Employer contributions	-	36,068	(36,068)
Other changes	-	764	(764)
Net changes	<u>62,207</u>	<u>66,533</u>	<u>(4,326)</u>
Balance at 12/31/2017	<u>\$ 111,159</u>	<u>\$ 120,252</u>	<u>\$ (9,093)</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the Jackson County Emergency Services District No. 3 net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate:

	1% Decrease in Discount Rate (7.10%)	Discount Rate (8.10%)	1% Increase in Discount Rate (9.10%)
Total pension liability	\$ 132,134	\$ 111,159	\$ 94,021
Fiduciary net position	<u>120,252</u>	<u>120,252</u>	<u>120,252</u>
Net pension liability / (asset)	<u>\$ 11,882</u>	<u>\$ (9,093)</u>	<u>\$ (26,231)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS report.

NOTE 9: EMPLOYEES' RETIREMENT PLAN - (Continued)**Pension Expense and Deferred Outflows of Resources**

For the year ended September 30, 2018, the District recognized pension expense of \$10,934. At September 30, 2018, the District reported the following deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 10,464
Changes of assumptions	990	-
Net difference between projected and actual earnings	411	-
Contributions made subsequent to measurement date	-	25,394
Total	<u>\$ 1,401</u>	<u>\$ 35,858</u>

Amounts reported as deferred outflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31,	
2018	\$ 794
2019	794
2020	794
2021	367
2022	790
Thereafter	5,524
	<u>\$ 9,063</u>

NOTE 10: RESTATEMENT OF BEGINNING BALANCES

The District's governmental activities financial statements for the fiscal year ending September 30, 2017 have been restated to properly reflect the accrued compensated absences. The result of the restatement was to decrease beginning unrestricted net position \$20,179.

NOTE 11: SUBSEQUENT EVENTS

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

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, 2018*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES				
Tax revenues				
Tax collections	\$ 663,000	\$ 663,000	\$ 663,821	\$ 821
Penalty and interest	-	-	7,610	7,610
Charges for services	-	-	1,150	
Unrestricted investment earnings	1,500	1,500	1,346	(154)
Grants and donations	4,500	63,933	118,222	54,289
Miscellaneous	-	23,190	12,681	(10,509)
Total revenues	<u>669,000</u>	<u>751,623</u>	<u>804,830</u>	<u>52,058</u>
EXPENDITURES				
Current				
Personnel	436,300	436,300	461,654	(25,354)
Professional services	9,000	9,000	9,023	(23)
Materials and supplies	28,300	28,300	33,502	(5,202)
Maintenance	29,400	37,500	34,906	2,594
Administrative				
Commissioners' training	4,000	4,000	644	3,356
Insurance	17,000	17,000	14,543	2,457
Utilities	10,000	10,000	9,345	655
Dues	2,100	2,100	2,289	(189)
Travel	3,000	3,000	7,884	(4,884)
Training school	1,000	1,000	4,558	(3,558)
Vol FF Reimbursement	35,000	35,000	20,712	14,288
Other	11,900	11,900	13,816	(1,916)
Contract services				
Appraisal district	24,000	24,000	20,753	3,247
Tax Assessor	3,000	3,000	-	3,000
Capital outlay	35,638	110,161	131,197	(21,036)
Debt service	19,362	19,362	19,362	-
Total expenditures	<u>669,000</u>	<u>751,623</u>	<u>784,188</u>	<u>(32,565)</u>
Excess (deficiency) of revenues over (under) expenditures (GAAP BUDGETARY BASIS)	-	-	20,643	20,643
Fund balance at beginning of year	<u>253,925</u>	<u>253,925</u>	<u>253,925</u>	<u>-</u>
Fund balance at end of year	<u>\$ 253,925</u>	<u>\$ 253,925</u>	<u>\$ 274,568</u>	<u>\$ 20,643</u>

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

JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last ten years

	<u>2017</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 44,417	\$ 47,043
Interest (on the total pension liability)	7,563	1,869
Changes of benefit terms	-	-
Difference between expected and actual experience	(1,073)	40
Change of assumptions	11,300	-
Benefit payments, including refunds of employee contributions	<u>-</u>	<u>-</u>
Net Change in Total Pension Liability	62,207	48,952
Total Pension Liability - Beginning	<u>48,952</u>	<u>-</u>
Total Pension Liability - Ending (a)	<u>\$ 111,159</u>	<u>\$ 48,952</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 36,068	\$ 33,435
Contributions - Employee	21,022	19,482
Net investment income	8,759	-
Benefit payments, including refunds of employee contributions	-	-
Administrative expense	(80)	-
Other	<u>764</u>	<u>802</u>
Net Change in Plan Fiduciary Net Position	66,533	53,719
Plan Fiduciary Net Position - Beginning	<u>53,719</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 120,252</u>	<u>\$ 53,719</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ (9,093)</u>	<u>\$ (4,767)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	108.18%	109.74%
Covered Employee Payroll	\$ 300,315	\$ 278,313
Net Pension Liability as a Percentage of Covered Employee Payroll	-3.03%	-1.71%

NOTE: Information for the prior eight years was not readily available. The District will compile the respective information over the next nine years as provided by TCDRS on a "measurement date" basis.

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

JACKSON COUNTY EMERGENCY SERVICES DISTRICT NO. 3
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last ten fiscal years

	<u>2017</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 36,068	\$ 33,425
Contribution in relation to the actuarially determined contribution	<u>(36,068)</u>	<u>(33,435)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (10)</u>
Covered employee payroll	\$ 300,315	\$ 278,313
Contributions as a percentage of covered employee payroll	12.0%	12.0%

NOTE: Information for the prior eight years was not readily available. The District will compile the respective information over the next nine years as provided by TCDRS on a "measurement date" basis.

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, 2018

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, 2018, the District complied with budgetary restrictions at all function levels except as detailed in the following table:

<u>Function</u>	<u>Expenditure Variance</u>
Personnel	\$ 25,354
Professional services	23
Materials and supplies	5,202
Dues	189
Travel	4,884
Training school	3,558
Other	1,916
Capital outlay	21,036

These over expenditures were funded by available fund balance in the General Fund.

NOTE 3: TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

Valuation Date

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	9.0 years (based on contribution rate calculated in 12/31/17 valuation)
Asset valuation method	5-non-asymptotic
Inflation	2.75%
Salary increases	Varies by age and service. 3.25% average over career including inflation.
Investment rate of return	8.10%, net of investment expenses, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	Mortality rates were based on the RP-2000 tables, depending on status of member, for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

Other Information

There were no benefit changes during the year.



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**INDEPENDENT AUDITORS' 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 Commissioners
Jackson County Emergency Services District No. 3
Edna, Texas

We have audited, 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, the financial statements of the governmental activities, each major fund, of the Jackson County Emergency Services District No. 3 (the "District") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 8, 2019.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



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

May 8, 2019