

FORT BEND COUNTY EMERGENCY
SERVICES DISTRICT NO. 3

Financial Statements
with
Report of Independent Auditor

December 31, 2013

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SEIDEL, SCHROEDER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS / BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Fort Bend County Emergency Services District No. 3

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fort Bend County Emergency Services District No. 3, (the "District") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 opinions.

Opinions

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 Fort Bend County Emergency Services District No. 3 as of December 31, 2013, and the respective changes in financial position and budgetary comparison 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 on pages 3 through 5 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.

Brenham, Texas
June 24, 2014

Sidel, Schwach & Company

Fort Bend County
Emergency Services District No. 3
P.O. Box 295
Orchard, Texas 77464

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial activities of the Fort Bend County Emergency Services District No. 3 for the year ended 2013. The information presented herein should be considered in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

The Statement of Net Position and the Statement of Activities are statements required under GASB 34 and provide information about the activities of the district as a whole and present a longer-term view of the District's finances.

Overview of the Financial Statements

The annual report consists of three parts – Independent Auditors Report, Management Discussion and Analysis, Basic Financial Statements and Fund Financial Statements.

- The first statement shows Statements of Net Position and Governmental Funds Balance Sheet.
- The next statement presents the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

The financial statements also include notes that explain some of the information in the financial statements and provide more details.

Reporting the District as a Whole

The accompanying **Government Wide Financial Statements** include two statements that present financial data for the district as a whole. The Statement of Activities reports information about the district as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting. All the current year revenues and expenses are taken into account regardless of when funds are received or paid.

These two statements report the District's net position and liabilities and changes in them. The difference between the District's assets and liabilities are one way to measure the district's financial position.

Reporting the District's Most Significant Funds

The fund financial statements provide detailed information about the District's general fund which is the only fund.

- General fund is a governmental fund. This fund focuses on how much money flows into and out of the district and the balances left at year end that are available for spending. The governmental fund statements provided detailed short term view of the District's general government operations and the basic services it provides.

Government-Wide Financial Statements

Statement of Net Position

		2012	2013
Current & Other Assets		169,759	213,252
Capital Assets		137,252	123,697
Total Assets		307,011	336,949
Outstanding Debt		131,557	112,112
Other Liabilities		61,444	13,915
Total Liabilities		193,001	126,026
Deferred Inflows of Resources		-	58,472
Net Position invested in Capital Assets, Net of related debt		5,695	11,586
Restricted Net Position		-	-
Unrestricted Net Position		108,315	140,866
Total Net Position		114,010	152,451

Statement of Activities

		2012	2013
Property Tax Revenue		144,972	160,850
Other Income		2,514	2,334
Total Revenue		147,486	163,184
Professional Fees		14,257	14,116
Other Administrative Expenses		6,319	7,156
Department Expenses		129,217	103,472
Total Expenses		149,793	124,744
Change in Net Position		(2,307)	38,440

As of December 31, 2013, the District had net position of \$152,451. As of December 31, 2012 net position were \$114,010 for a net increase of \$38,440.

Property Taxes increased by \$15,878 in 2013 due to an increase in the property tax values for the 2012 assessment.

General Fund Budget

Differences between the original budget and the actual income/expense are summarized as follows:

- Overall, expenses were \$30,915 less than budgeted in 2013. The District budgeted approximately \$9,500 for station repairs that were not expensed. Payments to the Fire Department were below the budgeted amounts.

Long Term Debt

At the end of the 2013 fiscal year, the District owed \$112,112 on the capital lease. The lease was for the purchase of a fire truck that was leased to the Orchard Volunteer Fire Department.

Contacting the District's Financial Management

This financial report is designed to provide our taxpayers, customers, 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 a question about this report or need additional information, contact Fort Bend County Emergency Services District No. 3, P.O. Box 295, Orchard, Texas 77464.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Statement of Net Position and
Governmental Funds Balance Sheet

December 31, 2013

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 163,486	\$ -	\$ 163,486
Receivables, tax	15,588	-	15,588
Due from Fort Bend County Tax Office	34,178	-	34,178
Capital assets	-	123,697 (3)	123,697
Total Assets	<u>\$ 213,252</u>	<u>123,697</u>	<u>336,949</u>
LIABILITIES			
Accounts payable	9,222	-	9,222
Accrued interest	-	4,693 (1)	4,693
Current portion of lease obligation	-	20,377 (1)	20,377
Lease obligation, net of current portion	-	91,735 (1)	91,735
Total Liabilities	<u>9,222</u>	<u>116,804</u>	<u>126,026</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	73,668	(15,196) (2)	58,472
Total Deferred Inflows of Resources	<u>73,668</u>	<u>(15,196)</u>	<u>58,472</u>
FUND BALANCE / NET POSITION			
Fund Balance:			
Assigned	100,182	(100,182)	-
Unassigned	30,180	(30,180)	-
	<u>130,362</u>	<u>(130,362)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 213,252</u>		
Net Position:			
Invested in capital assets, net of related debt		11,586	11,586
Restricted		-	-
Unrestricted		140,866	140,866
Total Net Position		<u>\$ 152,451</u>	<u>\$ 152,451</u>

(1) Long-term liabilities are not due and payable in current year and therefore are not reported in the general fund.

(2) Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

(3) Capital assets are not financial resources and are not reported in the general fund.

The notes to the financial statements are an integral part of this statement.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Statement of Activities and
Governmental Fund Statements of Revenues, Expenditures,
and Changes in Fund Balance
December 31, 2013

	General Fund	Adjustments		Statement of Activities
Revenues:				
Property taxes	\$ 160,426	\$ 424	(3)	\$ 160,850
Penalty and interest	2,208	-		2,208
Interest income	126	-		126
Total revenues	<u>162,760</u>	<u>424</u>		<u>163,184</u>
Expenditures/expenses:				
Administrative:				
Tax collection fee 1%	1,723	-		1,723
Central Appraisal District fees	989	-		989
Professional fees	14,116	-		14,116
Office	1,888	-		1,888
Advertising	33	-		33
Board fee	2,438	-		2,438
Miscellaneous	85	-		85
Department:				
Orchard Volunteer Fire Department				
Operations	84,436	-		84,436
Depreciation expense	-	13,556	(4)	13,556
Debt service:				
Principal	19,446	(19,446)	(1)	-
Interest	6,294	(814)	(2)	5,480
Total expenditures/expenses	<u>131,448</u>	<u>(6,704)</u>		<u>124,744</u>
Change in fund balance/ net position	31,312	7,129		38,440
Fund balance / net position:				
Beginning of the year	<u>99,050</u>	<u>14,961</u>		<u>114,011</u>
End of the year	<u>\$ 130,362</u>	<u>\$ 22,090</u>		<u>\$ 152,451</u>

- (1) Repayment of lease principal is an expenditure in general fund, but the repayment reduces long-term liabilities in the Statement of Net Position.
- (2) Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the general fund.
- (3) In the governmental fund, property taxes that are receivable, but not available are not recognized as income and are deferred.
- (4) General fund reports capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated based upon their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

The notes to the financial statements are an integral part of this statement.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

December 31, 2013

	Original / Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues:			
Property taxes	\$ 162,363	\$ 160,426	\$ (1,937)
Penalty and interest	-	2,208	2,208
Interest income	-	126	126
Total revenues	162,363	162,760	397
Expenditures:			
Administrative			
Tax collection fee 1%	3,000	1,723	(1,277)
Central Appraisal District fees	1,030	989	(41)
Professional fees	15,300	14,116	(1,184)
Bond fee	125	-	(125)
Office	50	1,888	1,838
Board reimbursment fee	2,400	2,438	38
Advertising	100	33	(67)
Miscellaneous	5,239	85	(5,154)
Fire Protection and Safety:			
Orchard Volunteer			
Fire Department:			
Operations	99,795	84,436	(15,359)
Station repairs	9,584	-	(9,584)
Debt service:			
Principal	19,446	19,446	-
Interest	6,294	6,294	-
Total expenditures	162,363	131,448	(30,915)
Change in fund balance	-	31,312	31,312
Fund balance, beginning of the year	99,050	99,050	-
Fund balance, end of the year	\$ 99,050	\$ 130,362	\$ 31,312

The notes to the financial statements are an integral part of this statement.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Notes to Basic Financial Statements

December 31, 2013

1. Summary of significant accounting policies

The accompanying financial statements include all funds of Fort Bend County Emergency Services District No. 3 (the District). The accounting policies of the District conform to generally accepted accounting principles. The following is a summary of the more significant policies:

A. Reporting entity

The District is a political subdivision created under Article III, Section 48-d, of the Texas Constitution by an affirmative vote of the Texas State Legislature in 1988. The District operates under Chapter 775 of the Health and Safety Code.

B. Basis of presentation

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. Governmental activities consist of only the general fund, as the general fund is the only fund of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Fund Financial Statements

The operations of the general fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows and outflows, fund equity, revenues, and expenditures, as appropriate. This fund is a governmental fund which is the general operating fund of the District. It is used to account for all financial resources.

C. Measurement focus and basis of accounting

Measurement Focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Notes to Basic Financial Statements

December 31, 2013

operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the "current financial resources" measurement focus is used. Only current financial assets and liabilities are generally included on this balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. The general fund uses fund balance as its measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

D. Use of estimates

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

E. Risk management

The District is exposed to various risks of loss from torts: theft of, damage to, and destruction of Department assets; business interruption; errors and omissions; injuries; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Notes to Basic Financial Statements

December 31, 2013

F. Income taxes

The District is a political subdivision under the laws of the State of Texas and, therefore, is exempt from federal income tax.

G. Capital assets

Capital assets which includes equipment is reported in the governmental activities column of the government-wide financial statements. The district defines capital assets as assets with an estimated useful life greater than one year for equipment. All capital assets are valued at historical cost or estimated historical cost if the actual historical cost is unavailable. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Improvements are capitalized over the remaining useful lives of the related capital assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation over the following estimated useful lives:

Machinery and equipment	20 years
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In the fund financial statements, capital assets used in governmental operations are accounted for as capital outlay expenditures of the governmental fund at the time of acquisition.

H. Fund equity

Government-wide statements

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Notes to Basic Financial Statements

December 31, 2013

- c. Unrestricted net position – all other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund statements

Governmental fund equity is classified as fund balance.

Classification of fund balances

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, and contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the District to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Board actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the Board or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Board actions. The assigned fund balance is only reported in the General Fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Notes to Basic Financial Statements

December 31, 2013

Spending Prioritization in Using Available Resources

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the District budget considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the District's budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

2. Property tax

Property taxes are levied by October 1 of each year for the following calendar year. Taxes are due on receipt of the tax statement and are delinquent if not paid before February 1 of the year following the year of assessment. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes and the payment of any penalties and interest ultimately imposed.

Taxes levied for fiscal years ending December 31, 2013 were at the tax rate of \$0.091 per \$100 valuation. The tax for the 2013 fiscal year was levied in 2012 on property within the District having an assessed valuation of approximately \$179,811,255.

The District set and approved the 2013 tax rate to be \$0.09100 per \$100 valuation. Property taxes for 2013 were levied for the 2014 fiscal year. Therefore, the 2013 tax monies collected in the months of October, November, and December 2013, have been presented as unavailable revenue and included as deferred inflows.

3. Stewardship, compliance and accountability

The District adopted its 2013 budget on September 19, 2012. Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the account level.

4. Deposits with financial institution

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2013, the District's deposits with financial institutions were insured by the Federal Deposit Insurance Corporation.

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Notes to Basic Financial Statements

December 31, 2013

5. Assigned fund balance

As of December 31, 2013 the Board has assigned \$100,182 for capital outlay expenditures for the District or the Orchard Volunteer Fire Department.

6. Contract with Orchard Volunteer Fire Department

The District has entered into a contract with the Orchard Volunteer Fire Department. Within the District's geographical area, the Department has agreed to provide fire prevention and medical emergency training and to respond to requests for assistance in the event of fire and/or medical emergencies. The District has agreed to pay the Department's monthly submitted and approved bills not to exceed the taxes collected less the District's administrative expenses.

7. Capital Assets

The following is a summary of capital asset activity during the year ended December 31, 2013.

	Balance at Dec. 31, 2012	Additions/ Completion	Retirements/ Adjustments	Balance Dec. 31, 2013
<u>Governmental activities</u>				
Capital assets being depreciated				
Machinery and equipment	\$ 271,116	\$ -	\$ -	\$ 271,116
Total at historical cost	271,116	-	-	271,116
Less: accumulated depreciation for:				
Machinery and equipment	133,863	13,556	-	147,419
Total accumulated depreciation	133,863	13,556	-	147,419
Total capital assets being depreciated, net	137,253	(13,556)	-	123,697
Governmental activities capital assets, net	<u>\$ 137,253</u>	<u>\$ (13,556)</u>	<u>\$ -</u>	<u>\$ 123,697</u>

FORT BEND COUNTY EMERGENCY SERVICES DISTRICT NO. 3

Notes to Basic Financial Statements

December 31, 2013

8. Long-term debt

The District along with the Orchard Volunteer Fire Department has entered into a lease agreement as lessee for financing a fire truck used by the Department. Assets under lease total \$271,116 and are reported in the Government-Wide Financial Statements net of accumulated depreciation of \$147,419. Amortization expense is included in depreciation expense. The following is a schedule of the future minimum lease payments under this lease and the present value of the minimum lease payments at December 31, 2013:

<u>Year Ending December 31:</u>		
2014		\$ 25,740
2015		25,740
2016		25,740
2017		25,740
2018		25,740
Total minimum lease payments		128,700
Less: amount representing interest cost		(16,588)
Present value of minimum lease payments		<u>\$ 112,112</u>

Changes in Long-Term Liabilities. During the years ended December 31, 2013, the following changes occurred in long-term debt:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due within</u> <u>One Year</u>
<i>December 31, 2012</i>					
Capital lease obligation	\$ 131,558	\$ -	\$ 19,446	\$ 112,112	\$ 20,377

9. Commitments

The Fire Department entered into a capital lease for a 2000 Gallon Tanker Truck in 2006 and received a grant of \$108,000 to be applied to this purchase. The truck was received and placed in service in 2007. Based upon the agreement with the Fire Department, the District will reimburse the Department for the remaining payments toward this purchase. The first payment was made July 2007 in the amount of \$16,095. Future payments of \$16,095 will be paid annually until 2018.