

HIDALGO COUNTY EMERGENCY
SERVICES DISTRICT NO. 3

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007

OSCAR R. GONZALEZ, CPA & ASSOCIATES, P.L.L.C.
Certified Public Accountants

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Hidalgo County Emergency
Services District No. 3
Audited Financial Report
For the Year Ended December 31, 2007

HIDALGO COUNTY EMERGENCY SERVICES DISTRICT NO. 3

AUDITED FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007**

OFFICERS AND DIRECTORS

RUDY ZAMORA
President

FRED KARLE
Vice-President

LOUIE KIEFFER
Secretary-Treasurer

DONATO SALINAS
Member

JOE PERALEZ
Member

Hidalgo County Emergency Services No. 3
For the year ended December 31, 2007
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Financial Section

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&
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Oscar R. González
Melissa González

To the Board of Directors of the,
Hidalgo County Emergency Services District No. 3

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Hidalgo County Emergency Services District No. 3 as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hidalgo County Emergency Services District No. 3's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hidalgo County Emergency Services District No. 3, as of December 31, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2012, on our consideration of the Hidalgo County Emergency Services District No. 3'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 22 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.



Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants
Pharr, Texas

May 11, 2012

Management Discussion and Analysis

Hidalgo County Emergency Services District No. 3 Management Discussion and Analysis

This section of Hidalgo County Emergency Services District No. 3 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2007. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$836,531 as of December 31, 2007.
- During the year, the District's expenses were \$15,132 and \$160,225 was generated in taxes and interest revenue for governmental activities.
- The general fund reported a fund balance this year of \$750,609.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the Districts:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1F, Required Components of the District's Annual Financial Report

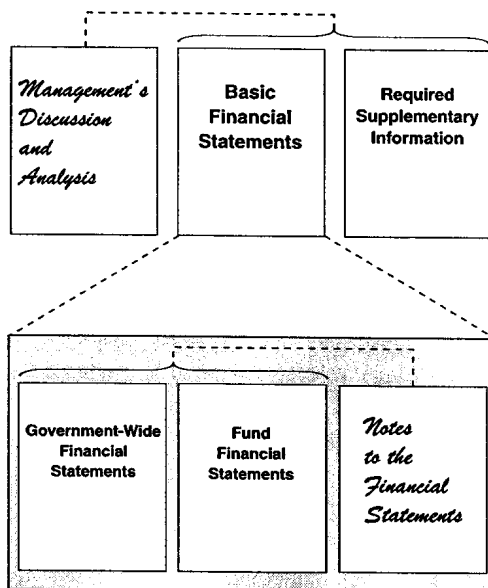


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the district government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the district as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Hidalgo County Emergency Services District No. 3 Management Discussion and Analysis

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, culture and recreation, and interest on long-term debt. Property taxes finance most of these activities.

Figure A-2 Major Features of the District's Government-wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-wide Entire Agency's government (except fiduciary funds) and the Agency's component units	Governmental Funds The activities of the district that are not proprietary or fiduciary	Proprietary Funds Activities the district operates similar to private businesses: self insurance	Fiduciary Funds Instances in which the district is the trustee or agent for someone else's resources
Scope				
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures & charges in fund balances	* Statement of net assets * Statement of revenues, expenses and charges in fund net assets * Statement of cash flows	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long- term	All assets and liabilities, both short-term and long- term; the Agency's funds not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Members of the District Board of Directors established other funds to control and manage money for particular purposes or to show that it is properly using certain taxes.

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

**Hidalgo County Emergency Services District No. 3
Management Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were \$ 836,531 at December 31, 2007. (See Table A-1).

Table A-1
Hidalgo County Emergency Services District No. 3
(In dollars)

Assets	Primary Government		Increase / Decrease
	2007	2006	2007-2006
Current assets:			
Cash and cash equivalents	\$ 674,177	\$ 541,797	\$ 132,380
Property Taxes Receivable (Net)	150,405	148,615	1,790
Due from Hidalgo County	14,786	-	14,786
Interest Receivable	1,911	9,211	(7,300)
Total current assets	841,279	699,623	141,656
Noncurrent assets:			
Capital Assets	10,782	14,376	(3,594)
Total Assets	\$ 852,061	\$ 713,999	\$ 138,062
LIABILITIES			
Current liabilities:			
Accounts Payable	\$ 15,530	\$ 33,640	\$ (18,110)
Total liabilities	15,530	33,640	(18,110)
Net Assets:			
Invested in Fixed Assets Net of Related Debt	10,782	14,376	(3,594)
Unrestricted	825,749	665,983	159,766
Total Net Assets	\$ 836,531	\$ 680,359	\$ 156,172

Financial Analysis:

- Total assets for the primary government increased from \$713,999 to \$852,061 a net increase of \$138,062 from last fiscal year, primarily due to an increase in investments in the form of certificates of deposit.
- Total liabilities for the primary government decreased from \$33,640 to \$15,530, a net decrease of \$18,110 from last year primarily due to a reduction of account payable liabilities.
- In 2007 net assets for the Primary Government increased from \$680,855 to \$836,531 a net increase of \$156,172 from last year, primarily due to not having an ambulance service contract renewed for this fiscal year creating less expenditures.

Hidalgo County Emergency Services District No. 3 Management Discussion and Analysis

Change in Net Assets. Referring to Table A-2, the total change in net assets for the year was \$145,093.

Table A-2
Hidalgo County Emergency Services District No.3
(In dollars)

	Primary Government		Increase / Decrease
	2007	2006	2007-2006
General Purpose Revenues and Transfers:			
Revenues			
Property Tax Revenue	\$ 136,716	\$ 125,213	\$ 11,503
Interest Revenue	23,509	15,538	7,971
Transfers	-	-	-
Total General Revenues and Transfers	<u>160,225</u>	<u>140,751</u>	<u>19,474</u>
Governmental Activities			
Emergency Service	15,132	40,790	(25,658)
Total Expenses	<u>15,132</u>	<u>40,790</u>	<u>\$ (25,658)</u>
Change in Net Assets	145,093	99,961	45,132
Net Assets Beginning-of Period	680,358	494,859	185,499
Prior Period Adjustments	11,080	85,539	(74,459)
Net Assets at Ending of Period	<u>\$ 836,531</u>	<u>\$ 680,359</u>	<u>\$ 156,172</u>

- Total general revenues for the primary government increased from \$140,751 to \$160,225 a net increase of \$19,474 from last fiscal year.
- Total expenses for the primary government decreased from \$40,790 to \$15,132 a net decrease of \$25,658 primarily due to the cancellation of a renewal contract for ambulance services for the year.
- The total change in net assets for the fiscal year 2007 was \$145,093 a \$45,132 increase from last year's change in net assets of \$99,961.

GENERAL FUND BUDGETARY HIGHLIGHTS

- Expenditures were budgeted at the beginning of the 2007 fiscal year at \$188,510 and were not amended by the board during the year. Actual expenditures for the year were \$11,538, which creates a positive variance of \$176,972, mainly caused by the cancellation of the ambulance service contract, which was the major expense of the district last fiscal year.
- Revenues were budgeted at the beginning of the 2007 fiscal year at \$144,000 and were not amended by the board during the year. Actual expenditures for the year were \$164,798, which creates a positive variance of \$20,798.
- Overall revenues over expenditures created a variance of \$153,260, which in comparison with budgeted expenditures over revenues of \$44,510, created a positive variance of \$197,770.

**Hidalgo County Emergency Services District No. 3
Management Discussion and Analysis**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had invested \$ 4,017 in medical equipment. (See Table A-3.)

		General Capital Assets Table A-3			Primary Government	
		Balance as of December 31, 2006	Additions	Deletions	Balance as of December 31, 2007	
<u>Capital Assets</u>						
Medical Equipment	\$	72,235	\$ -	\$ -	\$	72,235
<i>Total Capital Assets</i>		<u>72,235</u>	<u>-</u>	<u>-</u>		<u>72,235</u>
<u>Accumulated Depreciation</u>						
Accumulated Depreciation		57,859	3,594	-		61,453
<i>Total Accumulated Depreciation</i>		<u>57,859</u>	<u>3,594</u>	<u>-</u>		<u>61,453</u>
Total Capital Assets Net of Accumulated Depreciation	\$	14,376	\$ 3,594	\$ -	\$	10,782

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2008 budget preparation is up to \$ 1,262,424,956.
- General operating fund spending budget for 2008 was prepared based on history of actual definite revenues and essential expenses to operate.
- District is planning to renew the ambulance services for next year increasing expenditures.

These indicators were taken into account when adopting the general fund budget for 2008.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2008.

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 demonstrate 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 Board of Directors.

Basic Financial Statements

Hidalgo County Emergency Services District No. 3
Statement of Net Assets
December 31, 2007

	Primary Government	
	Governmental Activities	Total
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 674,177	\$ 674,177
Property Taxes Receivable (Net)	150,405	150,405
Due from Hidalgo County	14,786	14,786
Interest Receivable	1,911	1,911
<i>Total Current Assets</i>	841,279	841,279
 <i>Noncurrent Assets</i>		
Capital Assets (Net)	\$ 10,782	\$ 10,782
<i>Total Assets</i>	852,061	852,061
 LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	\$ 15,530	\$ 15,530
<i>Total Liabilities</i>	15,530	15,530
 NET ASSETS		
Invested in Fixed Assets Net of Related Debt	10,782	10,782
Unrestricted	825,749	825,749
<i>Total Net Assets</i>	836,531	836,531
<i>Total Liabilities and Net Assets</i>	\$ 852,061	\$ 852,061

The notes to these statements are an integral part of these statements.

Hidalgo County Emergency Services District No. 3
Statement of Activities
For the Year Ended December 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
Emergency Services	\$ 15,132	\$ -	\$ -	\$ -
<i>Total Governmental Activities</i>	\$ 15,132	\$ -	\$ -	\$ -

General Purpose Revenues and Transfers:

Revenues

Property Tax Revenue

Interest Revenue

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Period

Prior Period Adjustments

Net Assets at End of Period

The notes to these statements are an integral part of these statements.

<u>Net (Expense) Revenue</u>	
<u>Primary Government</u>	
<u>Governmental</u>	
<u>Activities</u>	<u>Total</u>
\$ (15,132)	\$ (15,132)
(15,132)	(15,132)
136,716	136,716
23,509	23,509
-	-
<u>160,225</u>	<u>160,225</u>
145,093	145,093
680,358	680,358
11,080	11,080
<u>\$ 836,531</u>	<u>\$ 836,531</u>

Hidalgo County Emergency Services District No. 3
Balance Sheet
Governmental Funds
December 31, 2007

	General Fund		Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 674,177	\$	674,177
Property Taxes Receivable (Net)	150,405		150,405
Due from Hidalgo County	14,786		14,786
Interest Receivable	1,911		1,911
Total Assets	\$ 841,279	\$	841,279
 LIABILITIES			
Accounts Payable	\$ 15,530	\$	15,530
Deferred Revenue	75,140		75,140
Total Liabilities	90,670	\$	90,670
 FUND BALANCE			
Unassigned	750,609		750,609
Total Fund Balance	750,609		750,609
Total Liabilities and Fund Balance	\$ 841,279	\$	841,279

The notes to these statements are an integral part of these statements.

Hidalgo County Emergency Services District No. 3
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
December 31, 2007

Total Fund Balance - Governmental Funds	\$	750,609
<p>When capital assets are to be used in governmental activities are purchased, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the District as a whole.</p>		
		14,376
<p>Depreciation expense reflected in entity wide statements, is not reflected in governmental funds statements.</p>		
		(3,594)
<p>The amount of the current property tax levy that has been recorded as revenue during the period and is expected to be collected within about 60 days after year-end should be included as revenue for the current period.</p>		
		75,140
Total Net Assets-Governmental Funds	\$	<u>836,531</u>

The notes to these statements are an integral part of these statements.

Hidalgo County Emergency Services District No. 3
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2007

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Property Tax Revenue	\$ 141,289	\$ 141,289
Interest Revenue	23,509	23,509
<i>Total Revenues</i>	<u>164,798</u>	<u>164,798</u>
Expenditures		
Emergency Services	11,538	11,538
<i>Total Expenditures</i>	<u>11,538</u>	<u>11,538</u>
<i>Excess of Revenues Over</i>		
<i>(Under) Expenditures</i>	<u>153,260</u>	<u>153,260</u>
<i>Net Change in Fund Balance</i>	153,260	153,260
<i>Fund Balance at Beginning of Period</i>	586,269	586,269
Prior Period Adjustment	11,080	11,080
<i>Fund Balance at End of Period</i>	<u>\$ 750,609</u>	<u>\$ 750,609</u>

The notes to these statements are an integral part of these statements.

Hidalgo County Emergency Services District No. 3
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended December 31, 2007

Total Net Change in Fund Balances - Governmental Funds	\$ 153,260
Depreciation expense reflected in entity wide statements, is not reflected in governmental funds statements.	(3,594)
The amount of the current property tax levy that has been recorded as revenue during the period and is expected to be collected within about 60 days after year-end should be included as revenue for the current period.	(4,573)
Changes in Net Assets-Governmental Funds	<u><u>\$ 145,093</u></u>

The notes to these statements are an integral part of these statements.

Notes to the Financial Statements

Hidalgo County Emergency Services District No. 3
Notes to Financial Statements
For the year ended December 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

This summary of significant accounting policies of Hidalgo County Emergency Services District No. 3 is presented to assist the reader in understanding the district's financial statements. The financial statements and notes are representations of the district's management.

The District was created and organized as provided by Article III, Section 48-d, of the Texas Constitution to protect life and property from fire and to conserve natural and human resources. The district is a political subdivision of the state. A five-member fire commissioners board governs operations of the District. Members of the board are appointed by the Hidalgo County Commissioner's Court.

The accounting and reporting policies of the District relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to toe state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units by the Financial Accounting Standards Board (FASB), when applicable.

B. Financial Reporting Entity

The District's financial reporting entity comprises the following:

Primary Government: Hidalgo County Emergency Services District No. 3

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units with a governmental reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The District holds the corporate powers of the organization
- The District appoints a voting majority of the organization's board
- The District is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the District
- There is fiscal dependency by the organization on the District.

Based on these criteria, the District is a component unit of the Hidalgo County Commissioners Court.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of the net assets and the statement of activities. These statements report information on all of the non-fiduciary financial information for the District. Eliminations have been made to minimize the double-counting of internal activities. Individual funds are not displayed, but the statements highlight governmental activities (generally supported by taxes and the District general revenue). The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues includes 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Hidalgo County Emergency Services District No. 3
Notes to Financial Statements
For the year ended December 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fund financial statements provide reports on the financial condition and results of operations about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Currently the District only has one General Fund.

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

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or APB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increase (revenues) and decrease (expenses) in net total assets.

Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. The District considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred.

The revenues susceptible to accrual are property taxes and interest income. All other governmental fund revenues are recognized when received if any.

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 needed.

E. Fund Types and Major Funds

Governmental Funds

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations

- *General Fund* – reports the primary fund of the District. This fund is used to account for all financial resources not reported in other funds.

Hidalgo County Emergency Services District No. 3
Notes to Financial Statements
For the year ended December 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Liabilities and Net Assets or Equity

1. Cash and Investments

The District considers cash and cash equivalents any account maturing within ninety days for financial statement reporting purposes. All investments are recorded at fair value based on quoted market prices. Fair Value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

2. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. The District considers property taxes as available if collected within 60 days after year end.

Taxable property includes real property and certain personal property situated in the District. Certain properties of religious, educational and charitable organizations, including the federal government and the State of Texas, are exempt from taxation. Additionally, there are other exemptions as noted below in arriving at the total assessed valuation of taxable property. The valuations are subject to county-wide revaluation every five years. The effective rate is based upon the previous year's total assessed valuation.

Allowances for uncollectible tax receivables within the General and Debt Service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and included as part of the allowance for uncollectible; except for tax receivables over 20 year, the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The District does not write off tax receivable greater than 20 years.

3. Transactions between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of the Governmental funds.

4. Capital Assets

Capital assets include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are capital assets valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Infrastructure	30 Years
Improvements	20 Years
Machinery and Equipment	3-15 Years

Hidalgo County Emergency Services District No. 3
Notes to Financial Statements
For the year ended December 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Long-Term Obligations

In the government-wide, proprietary and component unit financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance cost are deferred and amortized over the life of the bonds using the straight line method as the amount is immaterial against the effective interest method. Unamortized bond premium and discount, issuance cost and gain or loss on refunding are not netted against the liability, but recorded in the asset portion of the financial statements. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources. As of the end of the fiscal year there are no outstanding long-term obligations.

6. Net Assets / Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outsource parties for use for a specific purpose.

7. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Basis of Accounting

The District prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP Basis). The budget and all transactions are presented in accordance with the District's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are stated in the statement and schedules associated with the analysis of actual results to the budgeted expectations.

Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None	Not Applicable

III. DETAILED NOTES ON FUNDS

A. Deposits

District's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the Government Code in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Hidalgo County Emergency Services District No. 3
Notes to Financial Statements
For the year ended December 31, 2007

III. DETAILED NOTES ON FUNDS (Continued)

At December 31, 2007, the carrying amount of the District's deposits was \$674,177. The District has two depository accounts: International Bank of Commerce & Lone Star National Bank.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy of maintaining contact with the trust department of its depository agency to eliminate all custodial credit risk. As of December 31, 2007, the District's bank balance of \$656,240 was not exposed to custodial credit risk and was over-insured and over-collateralized.

Investments

The District is required by Government code Chapter 2256, the public Funds Investment Act ("Act"), to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management, and include a list of the types of authorized investments in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the general purposes financial statements disclosed that in the areas of investment practices, management reports and establish appropriate policies. The District adheres to the requirements of the Act. Additionally, investment practices of the District are in accordance with local policies.

The District has investments at December 31, 2007, in the form of Certificates of Deposit with Lone Star National Bank in the amount of \$391,702. The funds are available immediately as needed.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk. By limiting the exposure of its investments, the District reduces its risk to the rising or decreasing interest rates.

Credit Risk

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

Custodial Credit Risk

Deposits and investments are exposed to custodial credit risk if they are not covered by the depository insurance and the deposits and investments are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was exposed to concentration of credit risk, but highly collateralized.. The District was in compliance with its diversification investment guidelines.

Hidalgo County Emergency Services District No. 3
Notes to Financial Statements
For the year ended December 31, 2007

III. DETAILED NOTES ON FUNDS (Continued)

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Cash and cash equivalents at December 31, 2007 consisted of the following:

	2007
Petty Cash	\$ 125
IBC Checking Account	17,812
Lone Star National Bank Account	264,538
LSNB CD #45141942	234,321
LSNB CD #45141934	157,382
Total Cash and Cash Equivalents	\$ 674,177

B. Receivables

Receivables for the District at December 31, 2007, were as follows:

General Fund	Account Receivable	Allowance for Uncollectibles	Total (Net)
Property Taxes	\$ 158,321	\$ 7,916	\$ 150,405
	\$ 158,321	\$ 7,916	\$ 150,405

C. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the deferred revenue reported in the fund financial statements were as follows:

Deferred Revenue Description	General Fund	Total
Property Taxes	\$ 75,140	\$ 75,140
	\$ 75,140	\$ 75,140

Hidalgo County Emergency Services District No. 3
Notes to Financial Statements
For the year ended December 31, 2007

III. DETAILED NOTES ON FUNDS (Continued)

D. Accounts Payable

Accounts Payable at December 31, 2007 consisted of the following:

Vendor	Payable
Linn-San Manuel Fire Dept.	\$ 10,000
Valley EMS, Inc.	5,000
Francisco J. Prado, Jr.	530
Total Accounts Payable	\$ 15,530

E. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance as of December 31, 2006	Additions	Deletions	Balance as of December 31, 2007
<u>Capital Assets</u>				
Medical Equipment	\$ 72,235	\$ -	\$ -	\$ 72,235
<i>Total Capital Assets</i>	72,235	-	-	72,235
<u>Accumulated Depreciation</u>				
Accumulated Depreciation	57,859	3,594		61,453
<i>Total Accumulated Depreciation</i>	57,859	3,594	-	61,453
Total Capital Assets Net of Accumulated Depreciation	\$ 14,376	\$ (3,594)	\$ -	\$ 10,782

Depreciation expense was charged to functions of the governmental activities as follows:

Governmental Activities

Emergency Services	\$ 3,594
Total Governmental Activities	\$ 3,594

F. Litigation

The District is not a defendant currently in any lawsuits that could have a material adverse effect on the financial condition of the District at December 31, 2007.

Hidalgo County Emergency Services District No. 3
Notes to Financial Statements
For the year ended December 31, 2007

III. DETAILED NOTES ON FUNDS (Continued)

G. Prior Period Adjustment

Prior period adjustments were needed in the General Fund in order to properly state the correct financial position of the District. The prior period adjustment amounts and the reason are as follows:

FUND LEVEL:

General Fund

Adjustment to reflect deposit in transit not posted on last year's cash balance.	\$ 231
Adjustment to correct prior period outstanding checks posted twice	10,849
Total General Fund	<u>11,080</u>

Total Governmental Fund Prior Period Adjustment	<u>\$ 11,080</u>
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GOVERNMENT-WIDE LEVEL:

Grand Total Prior Period Adjustment (Changes in Net Assets)	<u>\$ 11,080</u>
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H. Subsequent Events

For the purposes of reporting subsequent events, management has considered events occurring up to May 11, 2012, the date of the report was available to be issued. No subsequent events were noted.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

Hidalgo County Emergency Services District No. 3
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) <u>Actual</u>
Revenues				
Property Tax Revenue	\$ 129,000	\$ 129,000	\$ 141,289	\$ 12,289
Interest Revenue	15,000	15,000	23,509	8,509
<i>Total Revenues</i>	<u>144,000</u>	<u>144,000</u>	<u>164,798</u>	<u>20,798</u>
Other Financing Sources				
<i>Total Revenues and Other Financing Sources</i>	<u>144,000</u>	<u>144,000</u>	<u>164,798</u>	<u>20,798</u>
Expenditures				
Ambulance Service	188,510	188,510	11,538	176,972
<i>Total Expenditures</i>	<u>188,510</u>	<u>188,510</u>	<u>11,538</u>	<u>176,972</u>
Other Financing Uses				
<i>Total Expenditures and Other Financing Uses</i>	<u>188,510</u>	<u>188,510</u>	<u>11,538</u>	<u>176,972</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	<u>(44,510)</u>	<u>(44,510)</u>	<u>153,260</u>	<u>197,770</u>
<i>Net Change in Fund Balance</i>	<u>(44,510)</u>	<u>(44,510)</u>	<u>153,260</u>	<u>197,770</u>
<i>Fund Balance at Beginning of Period</i>	586,269	586,269	586,269	-
Prior Period Adjustments	11,080	11,080	11,080	-
<i>Fund Balance at End of Period</i>	<u>\$ 552,839</u>	<u>\$ 552,839</u>	<u>\$ 750,609</u>	<u>\$ 197,770</u>

The notes to these statements are an integral part of these statements.

 **Oscar R. González, CPA**
&
Associates, P.L.L.C.
Certified Public Accountants

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Oscar R. González
Melissa González

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of the,
Hidalgo County Emergency Services District No. 3

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hidalgo County Emergency Services District No. 3, as of and for the year ended December 31, 2007, which collectively comprise the Hidalgo County Emergency Services District No. 3's basic financial statements and have issued our report thereon dated May 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hidalgo County Emergency Services District No. 3's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hidalgo County Emergency Services District No. 3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hidalgo County Emergency Services District No. 3's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (2007-1) through (2007-7). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hidalgo County Emergency Services District No. 3'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 found no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hidalgo County Emergency Services District No. 3's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Hidalgo County Emergency Services District No. 3's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Oscar R. Gonzalez, CPA & Associates, PLLC

Oscar R. Gonzalez, CPA & Associates, PLLC

Certified Public Accountants

Pharr, Texas

May 11, 2012

Hidalgo County Emergency Services District No. 3
Schedule of Findings and Questioned Cost
For the Year Ended December 31, 2007

B. Financial Statement Findings

Schedule Reference (2007-1) FINANCIAL STATEMENT PREPARATION AND OTHER REPORTING MATTERS

Criteria: Individual responsible for accounting should possess the sufficient knowledge to prepare financial statements in accordance with GAAP.

Condition: The District's Individual responsible for accounting possesses the necessary accounting experience to reliably initiate, authorize and process financial data and to report such financial data for internal management purposes. However, their job functions are not designed to require that they maintain current expertise in financial reporting requirements for externally released financial statements that are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) including the presentation format of the financial statements and all of the related footnotes that accompany such financial statements.

Cause: Lack of knowledge about financial statement preparation.

Effect: Accounting staff does not possess the sufficient knowledge to prepare financial statements in accordance with GAAP.

Recommendation: The District's financial staff should obtain training in financial reporting and footnote presentation in order to ensure that its financial statements to comply with GAAP.

Questioned Costs: - \$0 –

Schedule Reference (2007-2) CONTROLS OVER CERTIFICATE OF DEPOSIT INVESTMENTS

Criteria: In order for the District to reflect the proper balance in all their assets, all certificate of deposit accounts need to be posted in the books of the District and reconciled at least quarterly in order to assure that the District has accurate and current asset balances.

Condition: Investments in certificate of deposits were not recorded in the books; consequently activity on the accounts was not posted nor reconciled on the books of the District.

Cause: Lack of control over investment balances and activity.

Effect: Investments in certificate of deposits were not reflected on the books of the District, and activity was not reconciled.

Recommendation: The balance on all certificate of deposit investments needs to be included in the books of the District and reconciled at least quarterly in order to assure that the District has accurate and current balances.

Questioned Costs: - \$0 –

Schedule Reference (2007-3) CONTROLS OVER ACCRUAL OF PROPERTY TAX RECEIVABLES

Criteria: Property tax assessed and not collected at the end of the fiscal year must be accrued as property tax receivables, and reduced by its appropriate allowance for uncollectible taxes in accordance with the District's policy.

Condition: No accrual is being made of property tax assessed and not collected by the end of the fiscal year as property tax receivables.

Cause: Lack of controls over the recording of property tax receivable amounts.

Effect: The District's books did not reflect property tax receivables owed to the District.

Hidalgo County Emergency Services District No. 3
Schedule of Findings and Questioned Cost
For the Year Ended December 31, 2007

Recommendation: Cutoff procedures need to be performed on property tax receivable balances near after the end of the fiscal year in order to assure that receivables assessed during the fiscal year are included as receivables if not collected by the end of the fiscal year.

Questioned Costs: - \$0 –

Schedule Reference (2007-4) CONTROLS OVER ACCRUAL OF ACCOUNTS PAYABLE

Criteria: Proper accrual of transactions in accordance with GAAP requires for the recording of all expenditures using the modified accrual basis of accounting where expenditures are recorded when the related fund liability is incurred.

Condition: Accounts payable cutoff testing procedures revealed that various cash disbursement transactions that were paid after the end of the fiscal year had been incurred during the fiscal year being audited and were recorded as expenditures in the subsequent year.

Cause: Lack of controls over cutoff procedures of accounts payable transactions occurring near after the end of the fiscal year.

Effect: Expenditures that belong to the fiscal year being audited were being recorded as expenditures for the subsequent year.

Recommendation: Cutoff procedures need to be performed on expenditures occurring near after the end of the fiscal year in order to assure that transactions that were incurred during the fiscal year are included as expenditures in the proper year.

Questioned Costs: - \$0 –

Schedule Reference (2007-5) CONTROLS OVER ACCRUAL OF INTEREST EARNED ON INVESTMENTS

Criteria: Interest revenue earned but not yet paid to the District on its certificate of deposit investments needs to be recorded as accrued interest receivable and recorded as earned revenue in the appropriate year even if no actual collection has been made.

Condition: No revenue is being accrued on interest earned due to the passage of time of certificate of deposit investments.

Cause: Investments in certificate of deposits have not been recorded on the books.

Effect: No revenue is being accrued on interest earned due to the passage of time of certificate of deposit investments.

Recommendation: Once investments are recorded, cutoff procedures need to be performed on certificate of deposit balances in order to determine the amount of revenue that has been earned due to the passage of time, and not yet collected by the District.

Questioned Costs: - \$0 –

Schedule Reference (2007-6) LACK OF ACCOUNTING AND INVESTING POLICIES

Criteria: In order to adequately maintain the processes, authorizations, records and other internal control requirements over purchasing, accounting and investing activities, a written policy must be adopted and authorized by the board of directors and followed as directed.

Condition: The District's policies and procedures did not have a policy in place that adequately describes the processes, authorizations, records and other internal controls required in order for the District to maintain effective control and accountability over purchasing, accounting and investing transactions.

Hidalgo County Emergency Services District No. 3
Schedule of Findings and Questioned Cost
For the Year Ended December 31, 2007

Cause: Lack of control over accounting and investing activities.

Effect: The District does not have an accounting or investment procedures manual.

Recommendation: Implement an accounting and investing procedures manual as soon as possible, in order to ensure that the process, authorizations, records and other internal control requirements are being observed as established.

Questioned Costs: - \$0 –

HIDALGO COUNTY EMERGENCY SERVICES DISTRICT No. 3

Corrective Action Plan

For the Year Ended September 30, 2007

Schedule Reference (2007-1) FINANCIAL STATEMENT PREPARATION AND OTHER REPORTING MATTERS

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: The District's financial staff will obtain training in financial reporting and footnote presentation in order to ensure that its financial statements to comply with GAAP.

Anticipated Completion Date: As soon as possible.

Schedule Reference (2007-2) CONTROLS OVER CERTIFICATE OF DEPOSIT INVESTMENTS

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: In order for the District to reflect the proper balance in all their assets, all certificate of deposit accounts will be posted in the books of the District and reconciled at least quarterly in order to assure that the District has accurate and current asset balances.

Anticipated Completion Date: As soon as possible.

Schedule Reference (2007-3) CONTROLS OVER ACCRUAL OF PROPERTY TAX RECEIVABLES

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: Cutoff procedures will be performed on property tax receivable balances near after the end of the fiscal year in order to assure that receivables assessed during the fiscal year are included as receivables if not collected by the end of the fiscal year.

Anticipated Completion Date: As soon as possible.

Schedule Reference (2007-4) CONTROLS OVER ACCRUAL OF ACCOUNTS PAYABLE

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: Cutoff procedures will be performed on expenditures occurring near after the end of the fiscal year in order to assure that transactions that were incurred during the fiscal year are included as expenditures in the proper year.

Anticipated Completion Date: As soon as possible.

Schedule Reference (2007-5) CONTROLS OVER ACCRUAL OF INTEREST EARNED ON INVESTMENTS

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: Once investments are recorded, cutoff procedures will be performed on certificate of deposit balances in order to determine the amount of revenue that has been earned due to the passage of time, and not yet collected by the District.

HIDALGO COUNTY EMERGENCY SERVICES DISTRICT No. 3

Corrective Action Plan

For the Year Ended September 30, 2007

Anticipated Completion Date: As soon as possible.

Schedule Reference (2007-6) LACK OF ACCOUNTING AND INVESTING POLICIES

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: The entity will implement an accounting and investing procedures manual as soon as possible, in order to ensure that the process, authorizations, records and other internal control requirements are being observed as established.

Anticipated Completion Date: As soon as possible.