

# COUNTY of HIDALGO



**HIDALGO COUNTY AUDITOR'S OFFICE**  
Hidalgo County Administration Building  
2808 South Business Highway 281  
Edinburg, Texas 78539-6243  
PHONE: (956) 318-2511  
FAX: (956) 318-2577  
WEBSITE: [www.co.hidalgo.tx.us/auditor](http://www.co.hidalgo.tx.us/auditor)

EDINBURG, TEXAS 78539

## RECEIVED

AUG 27 2013

### COUNTY JUDGE

August 26, 2013

Honorable Ramon Garcia, County Judge  
Hidalgo County Judge's Office  
1615 S. Closner, Suite J  
Edinburg, Texas 78539

Subject: Emergency Services District No. 3  
Financial Report for the Year Ended December 31, 2012

Dear Judge Garcia:

Pursuant to Health and Safety Code §775.082(b), an emergency services district shall prepare and file with the commissioners court of each county that contains any part of the district on or before June 1 of each year an audit report of the district's fiscal accounts and records.

Attached please find six (6) copies of the audited financial report for Emergency Services District No. 3 for the Year Ended December 31, 2012 for the Commissioners Court and Court Reporter. Please prepare an agenda item on the next available Commissioners Court meeting for presentation and acceptance of the financial report.

If you have questions, please do not hesitate to call me at 318-2511 ext. 4604.

Respectfully,

  
Raymundo Eufrazio, CPA  
Hidalgo County Auditor

Enclosures (6)

cc: Yolanda Chapa, Chief Administrator  
Hidalgo County Judge's Office  
(w/o enclosures)

## RECEIVED

OFFICE OF EXECUTIVE OFFICER  
ON: 10/25/13 BY: 

#### HIDALGO COUNTY DISTRICT JUDGES

RICARDO P. RODRIGUEZ, JR.  
JUDGE, 12<sup>TH</sup> D.C.

RODOLFO DELGADO  
JUDGE, 19<sup>TH</sup> D.C.

J. R. "BOBBY" FLORES  
JUDGE, 13<sup>TH</sup> D.C.

ROSE GUERRA REYNA  
JUDGE, 20<sup>TH</sup> D.C.

JUAN R. PARTIDA  
JUDGE, 27<sup>TH</sup> D.C.

MARIO E. RAMIREZ, JR.  
JUDGE, 32<sup>ND</sup> D.C.

NICOLE GONZALEZ  
JUDGE, 37<sup>TH</sup> D.C.  
OVERSEER

LETICIA LOPEZ  
JUDGE, 38<sup>TH</sup> D.C.

AIDA SALINAS FLORES  
JUDGE, 39<sup>TH</sup> D.C.

ISRAEL RAMON, JR.  
JUDGE, 43<sup>RD</sup> D.C.

JESSE CONTRERAS  
JUDGE, 44<sup>TH</sup> D.C.

**HIDALGO COUNTY  
EMERGENCY SERVICE DISTRICT NO. 3**

**P.O. Box 3489  
Edinburg, Texas 78539**

Phone: (956) 739-6842  
Fax: (956) 287-4487  
E-mail: [fpradolaw@msn.com](mailto:fpradolaw@msn.com)

August 23, 2013

Mr. Ray Eufrazio, CPA  
Hidalgo County Auditor  
2808 South Business Highway 281  
Edinburg, Texas 7839

RE: Hidalgo County ESD # 3 -- 2012 Audit

Dear Mr. Eufrazio:

Enclosed, please find six (6) copies of the Hidalgo County Emergency Services District No. 3's audited financial statement for the year ended December 31, 2012 for distribution to your office, County Commissioners, and the County Commissioners' Court as needed.

If you have any questions, please do not hesitate to contact me.

Sincerely,



FRANCISCO J. PRADO, JR.  
General Counsel  
Hidalgo County ESD # 3

Encl. (6 Copies 2012 Audit)

Received by: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
Printed Name

2013 AUG 23 PM 2 23

RECEIVED BY  
COUNTY AUDITOR

**Hidalgo County Emergency  
Services District No. 3  
Audited Financial Report  
For the Year Ended December 31, 2012**

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

**AUDITED FINANCIAL REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2012**

**OFFICERS AND DIRECTORS**

**RUDY ZAMORA**  
President

**LOUIE KIEFFER**  
Secretary-Treasurer

**AARON VELA**  
Member

**FRED CAPPADONA**  
Member

**LUIS FLORES**  
Member

**Hidalgo County Emergency Services District No. 3  
For the Year Ended December 31, 2012**

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**Financial Section**

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

208 W. Ferguson Unit #1 • Pharr, Texas 78577

Tel: (956) 787-9909 • Fax: (956) 787-3067

Email: [org110n@aol.com](mailto:org110n@aol.com)

*Oscar R. González*  
*Melissa González*

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying 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, 2012, 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 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 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 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 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, each major fund, and the aggregate remaining fund information of the Hidalgo County Emergency Services District No. 3, as of December 31, 2012, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis on Matter***

As described in Note II(1) to the financial statements, the District adopted the provisions of GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position* for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 23 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 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 August 2, 2013, 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* in considering Hidalgo County Emergency Services District No. 3's internal control over financial reporting and compliance.

*Oscar R. Gonzalez, CPA*

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

August 2, 2013

**Management's Discussion and Analysis**

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

This section of Hidalgo County Emergency Services District No. 3 (The District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$966,324 as of December 31, 2012.
- During the year, the District's expenses were \$198,773 and \$457,609 was generated in taxes and interest revenue for governmental activities.
- The general fund reported a fund balance this year of \$839,976.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The 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-1, Required Components of the District's Annual Financial Report

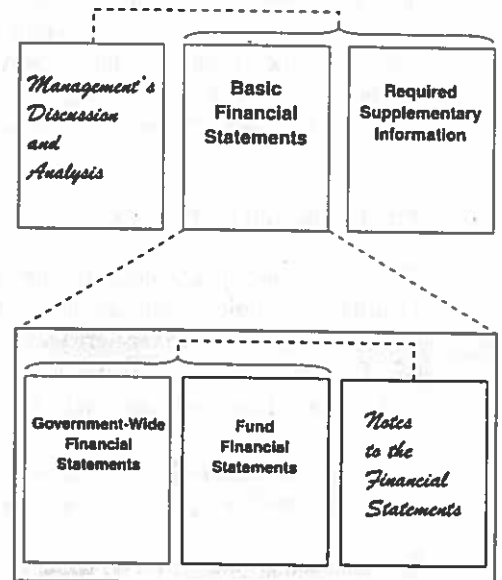


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the district government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of 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 position includes all of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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 position and how they have changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position 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 emergency services. 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	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	Fund Statements Proprietary Funds Activities the district operates similar to private businesses self insurance	Fiduciary Fund Instances in which the district is the trustee or agent for someone else's resources
Scope				
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures & charges in fund balances	* Statement of net position * Statement of revenues, expenses and charges in fund net position * Statement of cash flows	* Statement of fiduciary net position * Statement of change 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 fund 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 position. The District's combined net position was \$ 966,324 at December 31, 2012. (See Table A-1).

	Primary Government		Increase / Decrease
	2012	2011	2011-2012
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash, Cash Equivalents, and Investments	\$ 654,575	\$ 582,164	\$ 72,411
Property Taxes Receivable (Net)	326,189	140,323	185,866
Interest Receivable	705	745	(40)
<b>Total Assets</b>	<b>981,469</b>	<b>723,232</b>	<b>258,237</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Aggregated Deferred Outflows	-	-	-
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	15,145	15,744	(599)
<b>Total Liabilities</b>	<b>15,145</b>	<b>15,744</b>	<b>(599)</b>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Aggregated Deferred Inflows	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>			
Invested in Fixed Assets Net of Related Debt	-	-	-
Restricted	250,000	-	250,000
Unrestricted	716,324	707,488	8,836
<b>Total Net Position</b>	<b>\$ 966,324</b>	<b>\$ 707,488</b>	<b>\$ 258,836</b>

**Financial Analysis:**

- Total assets for the primary government increased from \$723,232 to \$981,469 a net increase of \$258,237 from last year.
- Total liabilities for the primary government decreased from \$15,744 to \$15,145, a net decrease of \$599 from last year.
- In 2012 net position for the Primary Government increased from \$707,488 to \$966,324 a net increase of \$258,836 from last year.
- There was a restriction of part of the unrestricted net position caused by a board commitment of \$250,000 towards the construction of an emergency facility for Hidalgo County.

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

Change in Net Position. Referring to Table A-2, the total change in net position for the year was an increase of \$258,836.

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

	Primary Government		Increase / Decrease
	2012	2011	2011-2012
<b>General Purpose Revenues and Transfers:</b>			
<b>Revenues</b>			
Property Tax Revenue	\$ 453,802	\$ 159,434	\$ 294,368
Interest Revenue	3,807	6,026	(2,219)
<b>Total General Revenues and Transfers</b>	<u>457,609</u>	<u>165,460</u>	<u>292,149</u>
<b>Governmental Activities</b>			
Emergency Service	198,773	258,766	(59,993)
<b>Total Expenses</b>	<u>198,773</u>	<u>258,766</u>	<u>(59,993)</u>
<b>Change in Net Position</b>	258,836	(93,306)	352,142
Net Position Beginning-of Period	707,488	793,172	(85,684)
Prior Period Adjustments	-	7,622	(7,622)
<b>Net Position at Ending of Period</b>	<u>\$ 966,324</u>	<u>\$ 707,488</u>	<u>\$ 258,836</u>

- Total general revenues for the primary government increased from \$165,460 to \$457,609 a net increase of \$292,149 from last year.
- Total expenses for the primary government decreased from \$258,766 to \$198,773 a net decrease of \$59,993 primarily due to the district not renewing contract of Air Care services for the year.
- The total change in net position for the fiscal year 2012 was \$258,836 a \$352,142 increase from last year's change in net assets of (\$93,306).

### GENERAL FUND BUDGETARY HIGHLIGHTS

- Expenditures were budgeted on September 22, 2011, for year 2012 at \$487,210 and were not amended by the board during the year. Actual expenditures for the year were \$198,773, which creates a positive variance of \$288,437 mainly caused by the budgeted expenses for the purchase of land that was not purchased.
- Revenues were budgeted on September 22, 2011, for year 2012 at \$153,000 and were not amended by the board during the year. Actual revenues for the year were \$400,203, which creates a positive variance of \$247,203
- Overall revenues over expenditures were of \$201,430, which in comparison with budgeted expenditures over revenues of (\$334,210) created a positive variance of \$535,640.

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2012, the District had no investment in medical equipment, left in excess of accumulated depreciation. (See Table A-3.)

**Table A-3  
General Capital Assets**

	Primary Government	
	Balance as of December 31, 2011	Balance as of December 31, 2012
<b><u>Capital Assets</u></b>		
Medical Equipment	\$ 72,235	\$ 72,235
<i>Total Capital Assets</i>	72,235	72,235
<b><u>Accumulated Depreciation</u></b>		
Accumulated Depreciation	72,235	72,235
<i>Total Accumulated Depreciation</i>	72,235	72,235
 Total Capital Assets Net of Accumulated Depreciation	 \$ -	 \$ -

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 2013 budget preparation is up to \$ 1,576,671,782.
- General operating fund spending budget for 2013 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 2013.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2013.

**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 on P.O. Box 3489 220C South 12th Street Edinburg, Texas 78539.

## Basic Financial Statements

**Hidalgo County Emergency Services District No. 3**  
**Statement of Net Position**  
**December 31, 2012**

	Primary Government	
	Governmental Activities	Total
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 186,116	\$ 186,116
Investments	468,459	468,459
Property Taxes Receivable (Net)	326,189	326,189
Interest Receivable	705	705
<i>Total Assets</i>	981,469	981,469
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Aggregated Deferred Outflows	-	-
<i>Total Deferred Outflows of Resources</i>	-	-
<b>LIABILITIES</b>		
Accounts Payable	15,145	15,145
<i>Total Liabilities</i>	15,145	15,145
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Aggregated Deferred Inflows	-	-
<i>Total Deferred Inflows of Resources</i>	-	-
<b>NET POSITION</b>		
Restricted	250,000	250,000
Unrestricted	716,324	716,324
<i>Total Net Position</i>	\$ 966,324	\$ 966,324

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, 2012**

<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	\$ 198,773	\$ -	\$ -	\$ -
<i>Total Governmental Activities</i>	<u>198,773</u>	<u>-</u>	<u>-</u>	<u>-</u>

**General Purpose Revenues and Transfers:**

**Revenues**

Property Tax Revenue

Interest Revenue

**Transfers**

*Total General Revenues and Transfers*

*Change in Net Position*

*Net Position at Beginning of Period*

*Net Position 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 Activities</u>	<u>Total</u>
\$ (198,773)	\$ (198,773)
(198,773)	(198,773)
453,802	453,802
3,807	3,807
-	-
<u>457,609</u>	<u>457,609</u>
258,836	258,836
707,488	707,488
<u>\$ 966,324</u>	<u>\$ 966,324</u>

**Hidalgo County Emergency Services District No. 3**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2012**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 186,116	\$ 186,116
Investments	468,459	468,459
Property Taxes Receivable (Net)	326,189	326,189
Interest Receivable	705	705
<i>Total Assets</i>	981,469	981,469
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Aggregated Deferred Outflows	-	-
<i>Total Assets and Deferred Outflows of Resources</i>	\$ 981,469	\$ 981,469
 <b>LIABILITIES</b>		
Accounts Payable	\$ 15,145	\$ 15,145
Unearned Revenue	126,348	126,348
<i>Total Liabilities</i>	141,493	141,493
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Aggregated Deferred Inflows	-	-
<i>Total Deferred Inflows of Resources</i>	-	-
 <b>FUND BALANCE</b>		
Committed for:		
Facility Construction	250,000	250,000
Unassigned	589,976	589,976
<i>Total Fund Balance</i>	839,976	839,976
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	\$ 981,469	\$ 981,469

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 Position**  
**December 31, 2012**

Total Fund Balance - Governmental Funds	\$ 839,976
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.	126,348
<b>Total Net Position-Governmental Funds</b>	<b>\$ <u>966,324</u></b>

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, 2012**

	<b>General Fund</b>	<b>Total Governmental Funds</b>	
<b>Revenues</b>			
Property Tax Revenue	\$ 396,396	\$ 396,396	
Interest Revenue	3,807	3,807	
<b><i>Total Revenues</i></b>	<b>400,203</b>	<b>400,203</b>	
<b>Expenditures</b>			
Ambulance Services	170,004	170,004	
First Responder Service	225	225	
Professional Fees	25,490	25,490	
Legal Advertisements	172	172	
County Annual Assessment	1,474	1,474	
Board Meeting Expenses	470	470	
Insurance Expense	612	612	
Bank Charges Expense	15	15	
Membership Fees	250	250	
Miscellaneous Expenses	61	61	
<b><i>Total Expenditures</i></b>	<b>198,773</b>	<b>198,773</b>	
<b><i>Excess of Revenues Over (Under) Expenditures</i></b>	<b>201,430</b>	<b>201,430</b>	
<b><i>Net Change in Fund Balance</i></b>	<b>201,430</b>	<b>201,430</b>	
<b><i>Fund Balance at Beginning of Period</i></b>	<b>638,546</b>	<b>638,546</b>	
<b><i>Fund Balance at End of Period</i></b>	<b>\$ 839,976</b>	<b>\$ 839,976</b>	

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 to the Statement of Activities**  
**For the Year Ended December 31, 2012**

Total Net Change in Fund Balances - Governmental Funds	\$	201,430
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.		57,406
<b>Changes in Net Position-Governmental Funds</b>	<b>\$</b>	<b><u>258,836</u></b>

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, 2012**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General Statement**

This summary of significant accounting policies of Hidalgo County Emergency Services District No. 3 (The District) 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 the 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.

**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 Hidalgo County.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements include the statement of the net position 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, 2012**

**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.

**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 position 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.

**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.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position**

**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.

**Hidalgo County Emergency Services District No. 3**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2012**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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

**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

**Hidalgo County Emergency Services District No. 3**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2012**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 Position / Fund Equity**

In the government-wide financial statements, net position is classified as Invested in Capital Assets-Net of Related Debt, Restricted Net Position, or Unrestricted Net Position. The three categories are described below:

- *Invested in Capital Assets-Net of Related Debt:* This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.
- *Restricted Net Position:* This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation. Currently the district has restricted \$250,000 of their net position as a commitment for the construction of a facility to provide emergency services to the Linn-San Manuel and surrounding areas.
- *Unrestricted Net Position:* This category represents the net position of the District which is not restricted for any project or any other purpose.

The District adopted GASB 54 as part of its fiscal year ending December 31, 2011. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances which are non-spendable and spendable.

- *Nonspendable*—Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted*—Amounts that can be spent only for specific purposes because of the District Charter, the District Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- *Committed*—Amounts that can be used only for specific purposes determined by a formal action by Board Members ordinance or resolution.
- *Assigned*—Amounts that are designated by the President of the Board for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board Members.
- *Unassigned*—All amounts not included in other spendable classifications.

**7. Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. An estimate is used for the allowance for uncollectible Taxes, which is calculated by management in accordance with policy and is based on prior year's results of collectability.

**Hidalgo County Emergency Services District No. 3**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2012**

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. New Accounting Standards**

On June 2011, GASB issued *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is effective for financial statements for periods beginning after December 15, 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts *Statement No. 4, Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, an acquisition of net position by the government. This statement amends the net asset reporting requirements in *Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District implemented GASB Statement No. 63 during fiscal year end 2012. This statement had no significant impact on the District.

**2. 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.

**3. Excess of General**

Expenditures exceeded appropriations in the following line items:

<u>Expenditure</u>	<u>Excess</u>
Professional Fees	\$ 7,990
Membership Fees	\$ 250
Ambulance Services	\$ 4
Bank Charges Expenses	\$ 15
Miscellaneous Expenses	\$ 61

**4. 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

**5. Committed Fund Balance / Restricted Net Position**

On April 5, 2012, the District's board committed \$250,000 towards the construction of a new emergency facility to serve the county of Hidalgo and the Linn-San Manuel Area. This commitment was made to fund balance in order to restrict resources towards the payment. It will also appear as restricted net position, since it was enacted by resolution 2012-1, of the Hidalgo County Emergency Services District No. 3.

**Hidalgo County Emergency Services District No. 3  
Notes to Financial Statements  
For the Year Ended December 31, 2012**

**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.

At December 31, 2012, the carrying amount of the District's deposits was \$186,116. The District has one depository account which is 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, 2012, the District's actual bank balance of \$98,315 was not exposed to custodial credit risk and was fully insured or collateralized.

	Balance as of December 31, 2012
Petty Cash	\$ 125
Lone Star National Bank Account	185,991
Total Cash and Cash Equivalents	\$ 186,116

**B. 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 has not adopted, implemented or publicized an investment policy as of December 31, 2012.

The District has certificate of deposits investments at December 31, 2012, with Lone Star National Bank in the amount of \$468,459. The funds are available without penalty at their maturity date of July 9, 2013, they are not considered as cash equivalents because they have maturities of 3 months or more as of the end of year.

Lone Star National Bank fully secures the District's cash and investments with pledged securities and FDIC Insurance. FDIC insurance for the year was \$250,000 and securities pledged and used to secure the District's accounts amounts to \$485,738 giving a total collateral of \$735,738 enough to secure both the depository account and the certificates of deposit that amount to only \$654,575.

**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:

**Hidalgo County Emergency Services District No. 3**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2012**

**III. DETAILED NOTES ON FUNDS (Continued)**

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 money 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.

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.

Investments at December 31, 2012 consisted of the following certificates of deposit:

	Maturity Date	Balance as of 12/31/2011	Increases	Decreases	Balance as of 12/31/2012
LSNB CD #45141942	July 9, 2013	\$ 152,850	\$ 919	\$ -	\$ 153,769
LSNB CD #45141934	July 9, 2013	149,815	891	( 50,000 )	100,706
LSNB CD #45200156	July 9, 2013	212,384	1,600	-	213,984
Total Investments		\$ 515,049	\$ 3,410	\$ ( 50,000 )	\$ 468,459

**C. Tax Receivables**

Receivables for the District at December 31, 2012, were as follows:

General Fund	Receivable	Allowance for Uncollectibles	Total (Net)
Property Taxes	\$ 343,357	\$ (17,168)	\$ 326,189
	\$ 343,357	\$ (17,168)	\$ 326,189

**Hidalgo County Emergency Services District No. 3**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2012**

**III. DETAILED NOTES ON FUNDS (Continued)**

**D. Unearned Revenue**

Governmental funds report unearned 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 unearned revenue reported in the fund financial statements were as follows:

<u>Unearned Revenue Description</u>	<u>General Fund</u>	<u>Total</u>
Property Taxes	\$ 126,348	\$ 126,348
	<u>\$ 126,348</u>	<u>\$ 126,348</u>

**E. Accounts Payable**

Accounts payable at December 31, 2012 consisted of the following:

<u>Vendor</u>	<u>Payable</u>
Francisco Prado	978
Valley EMS	14,167
Total Accounts Payable	<u>\$ 15,145</u>

**F. Capital Assets**

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance as of December 31, 2011	Additions	Deletions	Balance as of December 31, 2012
<b><u>Capital Assets</u></b>				
Medical Equipment	\$ 72,235	\$ -	\$ -	\$ 72,235
<i>Total Capital Assets</i>	<u>72,235</u>	<u>-</u>	<u>-</u>	<u>72,235</u>
<b><u>Accumulated Depreciation</u></b>				
Accumulated Depreciation	72,235	-	-	72,235
<i>Total Accumulated Depreciation</i>	<u>72,235</u>	<u>-</u>	<u>-</u>	<u>72,235</u>
Total Capital Assets Net of Accumulated Depreciation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**G. Litigation**

The District is not currently a defendant in any lawsuits that could have a material adverse effect on the financial condition of the District at August 2, 2013.

**H. Subsequent Events**

For the purposes of reporting subsequent events, management has considered events occurring up to August 2, 2013, the date the report was available to be issued. There are no significant subsequent events as of the date of the report.

## **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**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund (Non-GAAP, Budgetary Basis)**  
**For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budget</u>	<u>Variance</u>
			<u>Basis</u>	<u>Budget Basis</u>
<b>Revenues</b>				
Property Tax Revenue	\$ 150,000	\$ 150,000	\$ 396,396	\$ 246,396
Interest Revenue	3,000	3,000	3,807	807
<i>Total Revenues</i>	<u>153,000</u>	<u>153,000</u>	<u>400,203</u>	<u>247,203</u>
Other Financing Sources	-	-	-	-
<i>Total Revenues and Other Financing Sources</i>	<u>153,000</u>	<u>153,000</u>	<u>400,203</u>	<u>247,203</u>
<b>Expenditures</b>				
Ambulance Services	170,000	170,000	170,004	( 4 )
First Responder Service	15,000	15,000	225	14,775
Professional Fees	17,500	17,500	25,490	( 7,990 )
Legal Advertisements	500	500	172	328
County Annual Assessment	2,000	2,000	1,474	526
Board Meeting Expenses	1,500	1,500	470	1,030
Insurance Expense	1,500	1,500	612	888
Bank Charges Expense	-	-	15	( 15 )
Membership Fees	-	-	250	( 250 )
Air Care Services	10,710	10,710	-	10,710
EMS Retirement System	10,000	10,000	-	10,000
Educational Programs	7,500	7,500	-	7,500
Travel Expenses	1,000	1,000	-	1,000
Land Acquisition and Facilities	250,000	250,000	-	250,000
Miscellaneous Expenses	-	-	61	( 61 )
<i>Total Expenditures</i>	<u>487,210</u>	<u>487,210</u>	<u>198,773</u>	<u>288,437</u>
Other Financing Uses	-	-	-	-
<i>Total Expenditures and Other Financing Uses</i>	<u>487,210</u>	<u>487,210</u>	<u>198,773</u>	<u>288,437</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	<u>( 334,210 )</u>	<u>( 334,210 )</u>	<u>201,430</u>	<u>535,640</u>
<i>Net Change in Fund Balance</i>	<u>( 334,210 )</u>	<u>( 334,210 )</u>	<u>201,430</u>	<u>535,640</u>
<i>Fund Balance at Beginning of Period</i>	<u>638,546</u>	<u>638,546</u>	<u>638,546</u>	<u>-</u>
<i>Fund Balance at End of Period</i>	<u>\$ 304,336</u>	<u>\$ 304,336</u>	<u>\$ 839,976</u>	<u>\$ 535,640</u>

 **Oscar R. González, CPA**  
&  
**Associates, P.L.L.C.**  
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*Oscar R. González*  
*Melissa González*

INDEPENDENT AUDITOR'S 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, in accordance with the 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, and the aggregate remaining fund information of Hidalgo County Emergency Services District No. 3, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Hidalgo County Emergency Services District No. 3's basic financial statements and have issued our report thereon dated August 2, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hidalgo County Emergency Services District No. 3'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 Hidalgo County Emergency Services District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Hidalgo County Emergency Services District No. 3'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 entity's 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (2012-1), (2012-2), (2012-3), (2012-4), and (2012-5).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hidalgo County Emergency Services District No. 3 financial statements are free from 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 did not disclose 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 Findings**

Hidalgo County Emergency Services District No. 3's response to the findings identified in our audit is described in the accompanying corrective action plan. Hidalgo County Emergency Services District No. 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

August 2, 2013

**Hidalgo County Emergency Services District No. 3  
Schedule of Findings and Questioned Cost  
For the Year Ended December 31, 2012**

**B. Financial Statement Findings**

**Schedule Reference (2012-1) 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 (2012-2) CONTROLS OVER ACCRUAL OF PROPERTY TAX RECEIVABLES**

**Criteria:** Property tax assessed and not collected at the end of the 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 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.

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

**Questioned Costs:** - \$0 -

**Schedule Reference (2012-3) 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 year had been incurred during the 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.

**Hidalgo County Emergency Services District No. 3  
Schedule of Findings and Questioned Cost  
For the Year Ended December 31, 2012**

**Effect:** Expenditures that belong to the 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 year in order to assure that transactions that were incurred during the year are included as expenditures in the proper year.

**Questioned Costs:** - \$0 -

**Schedule Reference (2012-4) 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 (2012-5) 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.

**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**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended December 31, 2012**

**Schedule Reference (2011-1) FINANCIAL STATEMENT PREPARATION AND OTHER REPORTING**

**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.

**Current Condition:** Not Corrected

**Schedule Reference (2011-2) CONTROLS OVER CERTIFICATE OF DEPOSIT INVESTMENTS**

**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.

**Current Condition:** Corrected

**Schedule Reference (2011-3) CONTROLS OVER ACCRUAL OF PROPERTY TAX RECEIVABLES**

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

**Current Condition:** Not Corrected

**Schedule Reference (2011-4) CONTROLS OVER ACCRUAL OF ACCOUNTS PAYABLE**

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

**Current Condition:** Not Corrected

**Schedule Reference (2011-5) CONTROLS OVER ACCRUAL OF INTEREST EARNED ON 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.

**Current Condition:** Not Corrected

**Schedule Reference (2011-6) LACK OF ACCOUNTING AND INVESTING POLICIES**

**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.

**Current Condition:** Not Corrected

**Schedule Reference (2011-7) COLLATERIZED CASH DEPOSITS**

**Recommendation:** The District should consider reviewing the insured deposits on a monthly basis.

**Current Condition:** Corrected

**HIDALGO COUNTY EMERGENCY SERVICES DISTRICT No. 3**  
**Corrective Action Plan**  
**For the Year Ended September 30, 2012**

**Schedule Reference (2012-1) 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 (2012-2) 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 year in order to assure that receivables assessed during the year are included as receivables if not collected by the end of the year.

Anticipated Completion Date: As soon as possible.

**Schedule Reference (2012-3) 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 (2012-4) 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.

Anticipated Completion Date: As soon as possible.

**Schedule Reference (2012-5) 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.