

COUNTY of HIDALGO



EDINBURG, TEXAS 78539

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AUG 27 2014

COUNTY JUDGE

August 22, 2014

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, 2013

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 6 copies of the audited financial report for Emergency Services District No. 3 for the Year Ended December 31, 2013 for the Commissioners Court. Please prepare an agenda item on the next available Commissioners Court meeting for presentation and acceptance of the financial report.

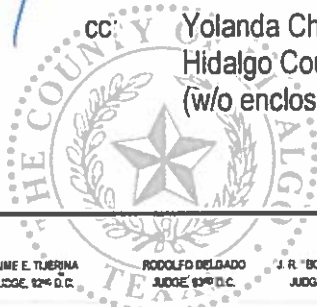
If you have questions, please do not hesitate to call me at 318-2511 ext. 4604.

Respectfully,


Raymundo Eufrazio, CPA
Hidalgo County Auditor

Enclosures (6)

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



HIDALGO COUNTY DISTRICT JUDGES

JAIME E. TUBERINA
JUDGE, 12TH D.C.

RODOLFO DELGADO
JUDGE, 13TH D.C.

J. R. "BOBBY" FLORES
JUDGE, 13TH D.C.

ROSE GUERRA REYNA
JUDGE, 20TH D.C.

JUAN R. PARTIDA
JUDGE, 27TH D.C.

MARIO E. RAMIREZ, JR.
JUDGE, 32ND D.C.

NOE GONZALEZ
JUDGE, 37TH D.C.
OVERSEER

LETICIA LOPEZ
JUDGE, 38TH D.C.

AIDA SALINAS FLORES
JUDGE, 39TH D.C.

ISRAEL RAMON, JR.
JUDGE, 43RD D.C.

JESSE CONTRERAS
JUDGE, 44TH D.C.

**Hidalgo County Emergency Services District Number 3
Audited Financial Report
For the Year Ended December 31, 2013**

Hidalgo County Emergency Services District Number 3
For the Year Ended December 31, 2013
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HIDALGO COUNTY EMERGENCY SERVICES DISTRICT NUMBER 3

AUDITED FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

OFFICERS AND DIRECTORS

RUDY ZAMORA
President

LOUIE KIEFFER
Secretary-Treasurer

AARON VELA
Member

FRED CAPPADONA
Member

LUIS FLORES III
Member

Financial Section

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

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Oscar R. González
Melissa González

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of,
Hidalgo County Emergency Services District Number 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 Number 3 as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 Number 3, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 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 of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013, on our consideration of the Hidalgo County Emergency Services District Number 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 Number 3's internal control over financial reporting and compliance.

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

July 21, 2014

Management's Discussion and Analysis

Hidalgo County Emergency Services District Number 3 Management's Discussion and Analysis

This section of Hidalgo County Emergency Services District Number 3 (The District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2013. 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 \$999,946 as of December 31, 2013.
- During the year, the District's expenses were \$432,143 and \$465,764 was generated in taxes and interest revenue for governmental activities.
- The general fund reported a fund balance this year of \$839,249.

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

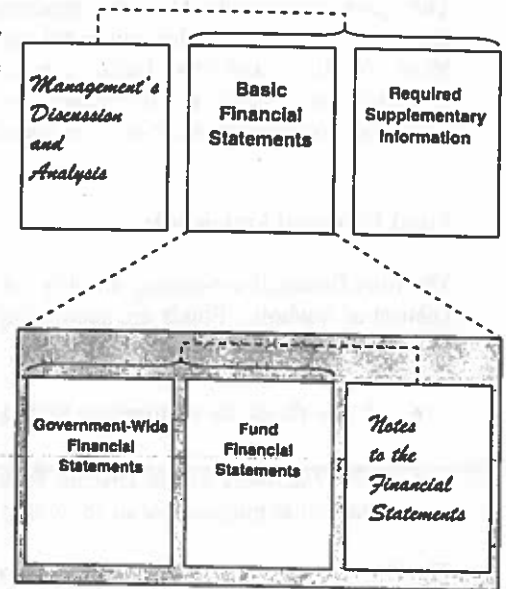


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the district government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of 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 Number 3 Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$ 999,946 at December 31, 2013. (See Table A-1).

Table A-1
Hidalgo County Emergency Services District Number 3
(In dollars)

	Primary Government		Increase / Decrease
	2013	2012	2012-2013
ASSETS			
Current Assets:			
Cash, Cash Equivalents, and Investments	\$ 642,208	\$ 654,575	\$ (12,367)
Property Taxes Receivable (Net)	330,134	326,189	3,945
Interest Receivable	705	705	-
Total Current Assets	973,047	981,469	(8,422)
Noncurrent Assets			
Capital Assets (Net)	27,752	-	27,752
Total Noncurrent Assets	27,752	-	27,752
Total Assets	1,000,799	981,469	19,330
DEFERRED OUTFLOW OF RESOURCES			
Aggregated Deferred Outflows	-	-	-
Total Deferred Outflows of Resources	-	-	-
LIABILITIES			
Current Liabilities:			
Accounts Payable	853	15,145	(14,292)
Total Liabilities	853	15,145	(14,292)
DEFERRED INFLOW OF RESOURCES			
Aggregated Deferred Inflows	-	-	-
Total Deferred Inflows of Resources	-	-	-
NET POSITION			
Net Investment in Capital Assets	27,752	-	27,752
Restricted	-	250,000	(250,000)
Unrestricted	972,194	716,325	255,869
Total Net Position	\$ 999,946	\$ 966,325	\$ 33,621

Financial Analysis:

- Total assets for the primary government increased from \$981,469 to \$1,000,799 a net increase of \$19,330 from last year.
- Total liabilities for the primary government decreased from \$15,145 to \$853, a net decrease of \$14,292 from last year.
- In 2013 net position for the Primary Government increased from \$966,324 to \$999,946, a net increase of \$33,621 from last year.
- There was a decrease in unrestricted net position from \$250,000 to \$0, a net decrease of \$250,000 from last year.

**Hidalgo County Emergency Services District Number 3
Management's Discussion and Analysis**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the District had a \$27,752 investment in medical equipment. (See Table A-3.)

**Table A-3
General Capital Assets**

	Primary Government			Balance as of December 31, 2013
	Balance as of December 31, 2012	Additions	Deletions	
<u>Capital Assets</u>				
Medical Equipment	\$ 72,235	\$ 28,780	\$ -	\$ 101,015
<i>Total Capital Assets</i>	<u>72,235</u>	<u>28,780</u>	<u>-</u>	<u>101,015</u>
<u>Accumulated Depreciation</u>				
Accumulated Depreciation	(72,235)	(1,028)	-	(73,263)
<i>Total Accumulated Depreciation</i>	<u>(72,235)</u>	<u>(1,028)</u>	<u>-</u>	<u>(73,263)</u>
Total Capital Assets Net of Accumulated Depreciation	<u>\$ -</u>	<u>\$ 27,752</u>	<u>\$ -</u>	<u>\$ 27,752</u>

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 2014 budget preparation is up to \$764,000.
- General operating fund spending budget for 2014 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 2014.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2014.

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 Number 3
Statement of Net Position
December 31, 2013

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 172,342	\$ 172,342
Investments	469,866	469,866
Property Taxes Receivable (Net)	330,134	330,134
Interest Receivable	705	705
<i>Total Current Assets</i>	<u>973,047</u>	<u>973,047</u>
Noncurrent Assets		
Capital Assets (Net)	27,752	27,752
<i>Total Noncurrent Assets</i>	<u>27,752</u>	<u>27,752</u>
<i>Total Assets</i>	<u>1,000,799</u>	<u>1,000,799</u>
DEFERRED OUTFLOWS OF RESOURCES		
Aggregated Deferred Outflows	-	-
<i>Total Deferred Outflows of Resources</i>	<u>-</u>	<u>-</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	853	853
<i>Total Liabilities</i>	<u>853</u>	<u>853</u>
DEFERRED INFLOWS OF RESOURCES		
Aggregated Deferred Inflows	-	-
<i>Total Deferred Inflows of Resources</i>	<u>-</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	27,752	27,752
Restricted	-	-
Unrestricted	972,194	972,194
<i>Total Net Position</i>	<u>\$ 999,946</u>	<u>\$ 999,946</u>

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>
\$ (432,143)	\$ (432,143)
(432,143)	(432,143)
463,948	463,948
1,816	1,816
-	-
<u>465,764</u>	<u>465,764</u>
33,621	33,621
966,325	966,325
<u>\$ 999,946</u>	<u>\$ 999,946</u>

**Hidalgo County Emergency Services District Number 3
Balance Sheet
Governmental Funds
December 31, 2013**

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 172,342	\$ 172,342
Investments	469,866	469,866
Property Taxes Receivable (Net)	330,134	330,134
Interest Receivable	705	705
<i>Total Assets</i>	973,047	973,047
 DEFERRED OUTFLOWS OF RESOURCES		
Aggregated Deferred Outflows	-	-
<i>Total Assets and Deferred Outflows of Resources</i>	\$ 973,047	\$ 973,047
 LIABILITIES		
Accounts Payable	\$ 853	\$ 853
<i>Total Liabilities</i>	853	853
 DEFERRED INFLOWS OF RESOURCES		
Deferred Property Tax	132,945	132,945
<i>Total Liabilities and Deferred Inflows of Resources</i>	133,798	133,798
 FUND BALANCE		
Unassigned	839,249	839,249
<i>Total Fund Balance</i>	839,249	839,249
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	\$ 973,047	\$ 973,047

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

Hidalgo County Emergency Services District Number 3
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2013

Total Fund Balance - Governmental Funds	\$	839,249
Capital assets are expensed as capital outlay in the governmental fund statement. However, they are capitalized as capital assets and reflected in the Statement of Net Position.		28,780
Depreciation expense reflected in entity wide statements, is not reflected in governmental funds statements.		(1,028)
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.		132,945
Total Net Position-Governmental Funds	\$	<u>999,946</u>

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

Hidalgo County Emergency Services District Number 3
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2013

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Property Tax Revenue	\$ 457,351	\$ 457,351
Interest Revenue	1,816	1,816
<i>Total Revenues</i>	<u>459,167</u>	<u>459,167</u>
Expenditures		
Ambulance Services	127,503	127,503
First Responder Service	5,000	5,000
Rescue Equipment	35,138	35,138
Accounting	4,000	4,000
Annual Assessment	4,761	4,761
Attorney Fees	15,637	15,637
Board Dinner	802	802
Legal Fees	657	657
Insurance Expense	727	727
Land Acquisition and Facilities for Hidalgo County	250,000	250,000
Membership Fees	500	500
Professional Fees	15,000	15,000
Miscellaneous Expenses	170	170
<i>Total Expenditures</i>	<u>459,895</u>	<u>459,895</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(728)</u>	<u>(728)</u>
<i>Net Change in Fund Balance</i>	(728)	(728)
<i>Fund Balance at Beginning of Period</i>	839,977	839,977
<i>Fund Balance at End of Period</i>	<u>\$ 839,249</u>	<u>\$ 839,249</u>

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

**Hidalgo County Emergency Services District Number 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, 2013**

Total Net Change in Fund Balances - Governmental Funds	\$	(728)
Capital assets are expensed as capital outlay in the governmental fund statement; however, they are capitalized as capital assets and reflected in the Statement of Net Position.		28,780
Depreciation expense reflected in the entity wide statements, is not reflected in governmental funds statements		(1,028)
The amount of 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.		6,598
Rounding Difference		(1)
Changes in Net Position-Governmental Funds	\$	<u>33,621</u>

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

Notes to the Financial Statements

Hidalgo County Emergency Services District Number 3
Notes to Financial Statements
For the Year Ended December 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

This summary of significant accounting policies of Hidalgo County Emergency Services District Number 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 Number 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 Number 3
Notes to Financial Statements
For the Year Ended December 31, 2013

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 Number 3
Notes to Financial Statements
For the Year Ended December 31, 2013**

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. New Accounting Standards

In March 2012, GASB issued Statement No. 65, *Items Previously reported as Assets and Liabilities*. This statement is effective for financial statements for periods beginning after December 15, 2012. 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 consumption of net position by the government that is applicable to future reporting period, and 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 Hidalgo County Emergency Services District Number 3 implemented GASB No. 65 during FY 2013. This statement had no significant impact on the District.

I. 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.

2. Excess of General

Expenditures exceeded appropriations in the following line items:

<u>Expenditure</u>	<u>Excess</u>
Annual Assessment	\$ 3,261
Attorney Fees	3,637
Legal Advertisement	157
Membership Fees	500
Consultants	15,000
Board Dinner	2
Reimbursement	170

3. 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

4. Committed Fund Balance / Restricted Net Position

This year, the District does not have any committed or restricted fund balance.

Hidalgo County Emergency Services District Number 3
Notes to Financial Statements
For the Year Ended December 31, 2013

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, 2013 consisted of the following certificates of deposit:

	Maturity Date	Balance as of 12/31/2012	Increases	Decreases	Balance as of 12/31/2013
LSNB CD #45141942	July 9, 2014	\$ 153,769	\$ 462	\$ -	\$ 154,231
LSNB CD #45141934	July 9, 2014	100,706	302	-	101,008
LSNB CD #45200156	July 9, 2014	213,984	643	-	214,627
Total Investments		\$ 468,459	\$ 1,407	\$ -	\$ 469,866

C. Tax Receivables

Receivables for the District at December 31, 2013, were as follows:

General Fund	Receivable	Allowance for Uncollectibles	Total (Net)
Property Taxes	\$ 347,509	\$ (17,375)	\$ 330,134
	\$ 347,509	\$ (17,375)	\$ 330,134

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 Number 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, 2013

	<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>
Revenues				
Property Tax Revenue	\$ 450,000	\$ 450,000	\$ 457,351	\$ 7,351
Interest Revenue	6,000	6,000	1,816	(4,184)
<i>Total Revenues</i>	<u>456,000</u>	<u>456,000</u>	<u>459,167</u>	<u>3,167</u>
Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total Revenues and Other Financing Sources</i>	<u>456,000</u>	<u>456,000</u>	<u>459,167</u>	<u>3,167</u>
Expenditures				
Ambulance Services	170,000	134,000	127,503	6,497
First Responder Service	10,000	10,000	-	10,000
Audit	4,000	4,000	4,000	-
County Annual Assessment	1,500	1,500	4,761	(3,261)
Attorney Fees	12,000	12,000	15,637	(3,637)
Board Meeting Expenses	800	800	802	(2)
Legal Advertisements	500	500	657	(157)
Insurance Expense	1,200	1,200	727	473
Travel Expenses	1,000	1,000	-	1,000
Land Acquisition and Facilities	250,000	250,000	250,000	-
Educational Programs	5,000	-	-	-
Rescue Equipment	-	36,000	35,138	862
1st Class Respondents Training	-	5,000	5,000	-
Membership Fees	-	-	500	(500)
Consultants	-	-	15,000	(15,000)
Reimbursement	-	-	170	(170)
<i>Total Expenditures</i>	<u>456,000</u>	<u>456,000</u>	<u>459,895</u>	<u>(3,895)</u>
Other Financing Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>456,000</u>	<u>456,000</u>	<u>459,895</u>	<u>(3,895)</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	<u>-</u>	<u>-</u>	<u>(728)</u>	<u>(728)</u>
<i>Net Change in Fund Balance</i>	<u>-</u>	<u>-</u>	<u>(728)</u>	<u>(728)</u>
<i>Fund Balance at Beginning of Period</i>	<u>839,977</u>	<u>839,977</u>	<u>839,977</u>	<u>-</u>
<i>Fund Balance at End of Period</i>	<u>\$ 839,977</u>	<u>\$ 839,977</u>	<u>\$ 839,249</u>	<u>\$ (728)</u>

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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,
Hidalgo County Emergency Services District Number 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 Number 3, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Hidalgo County Emergency Services District Number 3's basic financial statements and have issued our report thereon dated July 21, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hidalgo County Emergency Services District Number 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 Number 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Hidalgo County Emergency Services District Number 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. 2013-1 to 2013-6.

Compliance and Other Matters

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

Hidalgo County Emergency Services District Number 3's Response to Findings

Hidalgo County Emergency Services District Number 3's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. Hidalgo County Emergency Services District Number 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
Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants
Pharr, Texas

July 21, 2014

**Hidalgo County Emergency Services District Number 3
Schedule of Findings and Questioned Cost
For the Year Ended December 31, 2013**

B. Financial Statement Findings

Schedule Reference (2013-1) 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 (2013-2) 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 (2013-3) 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 Number 3
Schedule of Findings and Questioned Cost
For the Year Ended December 31, 2013**

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 (2013-4) 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 (2013-5) 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 –

Schedule Reference (2013-6) EXPENDITURES IN EXCESS OF APPROPRIATIONS

Criteria: State law requires budget amendments to be made prior to exceeding a major functional category.

Condition: As stated in the District's financial statements, we noted seven instances in which the District's budget had been exceeded at the functional level. Overall expenditures also exceeded overall sum of budgeted amounts for the fiscal year.

Cause: Budget amendments were not made prior to expenditures exceeding a major functional category.

**Hidalgo County Emergency Services District Number 3
Schedule of Findings and Questioned Cost
For the Year Ended December 31, 2013**

Effect: The District's budget was exceeded at the functional level, on seven functions and in overall expenditures.

Recommendation: Budget versus actual comparisons must be on a monthly basis. Control over expenditures should include a review of available budget amounts prior to approval of purchase orders and the budget should be amended as needed.

Questioned Costs: - \$0 -

**Hidalgo County Emergency Services District Number 3
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2013**

Schedule Reference (2012-1) 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 (2012-2) 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 (2012-3) 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 (2012-4) 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 (2012-5) 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 (2012-6) 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 (2012-7) COLLATERIZED CASH DEPOSITS

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

Current Condition: Corrected

**Hidalgo County Emergency Services District Number 3
Corrective Action Plan
For the Year Ended December 31, 2013**

Schedule Reference (2013-1) FINANCIAL STATEMENT PREPARATION AND OTHER REPORTING MATTERS

Name of Contact: Rudy Zamora, Louie Kieffer, Aaron Vela, Fred Cappadona, Luis Flores III

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 (2013-2) CONTROLS OVER ACCRUAL OF PROPERTY TAX RECEIVABLES

Name of Contact: Rudy Zamora, Louie Kieffer, Aaron Vela, Fred Cappadona, Luis Flores III

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 (2013-3) CONTROLS OVER ACCRUAL OF ACCOUNTS PAYABLE

Name of Contact: Rudy Zamora, Louie Kieffer, Aaron Vela, Fred Cappadona, Luis Flores III

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 (2013-4) CONTROLS OVER ACCRUAL OF INTEREST EARNED ON INVESTMENTS

Name of Contact: Rudy Zamora, Louie Kieffer, Aaron Vela, Fred Cappadona, Luis Flores III

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 (2013-5) LACK OF ACCOUNTING AND INVESTING POLICIES

Name of Contact: Rudy Zamora, Louie Kieffer, Aaron Vela, Fred Cappadona, Luis Flores III

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.

Schedule Reference (2013-6) EXPENDITURES IN EXCESS OF APPROPRIATIONS

Name of Contact: Rudy Zamora, Louie Kieffer, Aaron Vela, Fred Cappadona, Luis Flores III

**Hidalgo County Emergency Services District Number 3
Corrective Action Plan
For the Year Ended December 31, 2013**

Corrective Action Planned: Budget versus actual expenditures comparison will be made in a monthly basis and amendments to the budget will be done when necessary.

Anticipated Completion Date: As soon as possible.