

COMAL COUNTY EMERGENCY
SERVICES DISTRICT NO. 5
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
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DECEMBER 31, 2017

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Rick C. Reed
& COMPANY, PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Comal County Emergency Services District No. 5
Bulverde, TX

We have audited the accompanying financial statements of the governmental activities and the general fund of Comal County Emergency Services District No. 5 (the District) as of and for the year ended December 31, 2017, 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 in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Comal County Emergency Services District No. 5 as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information:

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and budgetary comparison information on pages 3 through 7 and page 20 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.

Rick C. Reed & Company, PLLC

Rick C. Reed & Company, PLLC

May 18, 2018

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5 MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of Comal County Emergency Services District No. 5 ("ESD #5" "the District") annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2017. The MD&A should be read in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- At the end of the fiscal year, unassigned fund balance for general fund was \$1,363,158 or 103.23% of 2017 general fund expenditures. The unassigned fund balance increased by \$554,362 from the 2016 calendar year.
- As of December 31, 2017, the District's total net position was \$1,732,692.
- The District had program expenses of \$1,313,927. Of this total, approximately 95% was expended for public safety and the remaining 5% was general government and interest expense. Depreciation expense was \$104,804 and was charged to public safety.
- General revenues consisted of \$1,825,497 and exceeded total expenses by \$511,570.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's Annual Financial Report consists of a series of financial statements and accompanying notes, with the primary focus being on the District as a whole. The Statement of Net Position and the Statement of Activities are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The fund financial statements report ESD #5's operations in more detail by providing information as to how services are financed in the short-term, as well as the remaining available resources for future spending. Additionally, the fund financial statements focus on major funds rather than fund types. The District has one fund type which is the general fund. This fund accounts for property tax revenues which are collected monthly by Comal County on behalf of the District. ESD #5 was formed in February 2005 as a subdivision of the State of Texas as an emergency services district under Health and Safety Code 776. Effective June 17, 2011, Senate Bill repealed Chapter 776 of the Texas Health & Safety Code and converted all of the emergency services districts operating under Chapter 776 to districts operating under Chapter 775.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities - Emergency services operating activities are reported in these statements.

The Statement of Net Position and the Statement of Activities present a view of the District's financial operations as a whole, reflect all financial transactions, and provide information helpful in determining whether the District's financial health or position has improved or deteriorated as a result of the current year's activities. Both of these statements are prepared using the full accrual basis of accounting similar to that used by most private-sector companies. The Statement of Net Position includes all assets and liabilities, both short and long term. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The two government-wide statements report ESD #5's net position, which represent the difference between assets, deferred outflows, liabilities, and deferred inflows. Over time, the increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. Additionally, the District's financial operating results are determined by the difference between the revenues and expenses. The District's basic services (general and administration and public safety) are paid for by property and sales tax revenues. To assess the overall health of the District, consideration should be given to additional non-financial factors such as changes in the District's tax base.

COMAL COUNTY EMERGENCY SERVICES DISTRICT No. 5 MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

Fund financial statements provide a detailed short-term view of ESD #5's operations, focusing on its most significant or "major" fund, emergency service operations. The District has one fund -- a general fund.

The general fund is a governmental fund, which focuses on how cash, and other financial assets that can readily be converted to cash, flow in and out; and the balances left at year end that are available for spending.

This fund is reported using an accounting method identified as the modified accrual bases of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental funds statements provide a short-term view that helps 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, additional information is provided on schedules immediately following the governmental funds statements that explain the relationship (or differences) between them.

Notes to Financial Statements

The notes provide disclosures and additional information that are essential to a full understanding of the financial information presented in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information beginning on page 20.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5 MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

At December 31, 2017 the District's net position is \$1,732,692. This is a \$511,570 increase over last year's net position of \$1,221,122. Revenues increased by \$126,969 primarily due to increased property tax appraisals and collections.

In accordance with GASB Statement No. 34, comparative analysis of government-wide information from prior year to current year is presented.

A schedule of ESD #5's net position is summarized as follows:

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$ 3,265,509	\$ 2,273,836
Capital assets, net	<u>532,049</u>	<u>595,310</u>
Total assets	<u>3,797,558</u>	<u>2,869,146</u>
Liabilities		
Current Liabilities	984,015	737,610
Long-Term Liabilities	<u>423,348</u>	<u>152,358</u>
Total liabilities	<u>1,407,363</u>	<u>889,968</u>
Deferred inflows of resources	<u>657,503</u>	<u>758,056</u>
Net position		
Net investment in Capital Assets	341,241	374,635
Unrestricted	<u>1,391,451</u>	<u>846,487</u>
Total net position	<u>\$ 1,732,692</u>	<u>\$ 1,221,122</u>

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5 MANAGEMENT'S DISCUSSION AND ANALYSIS

The District's total general fund revenues were \$1,834,906 in 2017, of which, 79.17% of the revenue came from ad valorem property taxes, 19.82% of revenue came from sales tax, and 0.26 % was from interest income.

For the year ended December 31, 2017, the total expenses were \$1,320,544 including \$1,141,863 of public safety, \$55,851 of general government expenses, \$41,543 in capital expenditures, \$69,867 in debt service payments, and \$11,420 of interest expense on debt service.

The District contracts with Bulverde-Spring Branch Emergency Services (BSB ES) to provide fire protection emergency services for the district as a service provider. The contract was initiated on March 29, 2014 and expires December 31, 2020. Funds are distributed to the service provider monthly in amounts agreed to be adequate to provide the fire protection emergency services. The details of the agreement are explained in Note D in the notes to the financial statements.

The following table summarizes the negotiated payments to the service provider:

<u>Calendar Year</u>	<u>Monthly Payments</u>	<u>Total Annual Payments</u>
2014	\$ 85,000	\$ 1,020,000
2015	85,000	1,020,000
2016	95,000	1,140,000
2017	95,000	1,140,000
2018	108,000	1,296,000

The following table summarizes the changes in the District's net position from its activities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues		
General Revenues	\$ 12,303	\$ 17,400
General Revenues		
Property Taxes	1,443,202	1,345,782
Sales tax	363,638	330,591
Interest	4,813	3,481
Other revenue	1,541	1,274
Total revenues	<u>1,825,497</u>	<u>1,698,528</u>
Expenditures		
General and Administration	55,851	62,871
Public Safety	1,246,667	1,268,585
Interest	11,409	14,722
Total expenses	<u>1,313,927</u>	<u>1,346,178</u>
Increase (Decrease) in net position	511,570	352,350
Beginning net position	1,221,122	868,772
Ending net position	<u>\$ 1,732,692</u>	<u>\$ 1,221,122</u>

Governmental activities realized benefits from both property and sales taxes. The increase in change in net position caused the District's overall financial position to improve during the year 2017.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5 MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the year ended December 31, 2017, the District's governmental funds reflect an unassigned fund balance of \$1,363,158. This year's increase in fund balance of \$554,362 is primarily due to the increase in property and sales taxes.

Actual revenues were more than budgeted revenues by \$11,835, primarily due to ad valorem tax receipts higher than expected. In addition, actual expenditures were more than budgeted expenditures by \$58,528. Resources available were \$46,896 less than the final budgeted amount.

CAPITAL ASSETS ADMINISTRATION

Investments in capital assets, net of accumulated depreciation, was \$341,241 at December 31, 2017. Capital assets include vehicles, buildings, and equipment valued \$1,947,034. The District has made a deposit of \$315,203 in 2017 for the purchase order of equipment that is expected to be received in 2018.

LONG-TERM DEBT

At the end of 2017, the District had total outstanding debt of \$506,011 for the purchase of various equipment and vehicles.

BUDGETARY HIGHLIGHTS

The Statement of Revenues, Expenditures and Changes in Fund Balances on page 12 indicates General Fund revenues exceeded expenditures by \$514,362 and the fund balance at the end of the year was \$1,363,158.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The ad valorem property tax rate was \$.10 per \$100 property valuation in 2016. The property tax rate for 2017 remained \$.10 per \$100 property tax valuation.

The Districts outlook for 2018 is promising. Ad valorem taxes are projected to increase due to property appraisals. Expenditures are also expected to increase as a result of operational cost adjustments related to the joint service agreement with Bulverde-Spring Branch Emergency Services.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers, patrons 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 office at 830-228-4501, or at 353 Rodeo Drive, Spring Branch, Texas 78070.

BASIC FINANCIAL STATEMENTS

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
STATEMENT OF NET POSITION
DECEMBER 31, 2017

		<u>Governmental Activities</u>
Assets		
Cash and cash equivalents		\$ 1,485,480
Cash with fiscal agent		775,863
Property tax receivable		687,688
Deposit on equipment		315,203
Prepaid expenses		1,275
Capital assets, net of accumulated depreciation:		
Vehicles	1,754,369	
Buildings	21,228	
Equipment	171,437	
Less: Accumulated Depreciation	<u>(1,414,985)</u>	
Total capital assets		<u>532,049</u>
Total assets		<u>\$ 3,797,558</u>
Liabilities		
Unearned revenue		899,460
Accrued interest		1,892
Long-term debt		
Due within one year		82,663
Due in more than one year		<u>423,348</u>
Total liabilities		<u>1,407,363</u>
Deferred Inflow of Resources		657,503
Net Position		
Net investment in capital assets		341,241
Unrestricted		<u>1,391,451</u>
Total net position		<u>1,732,692</u>
Total liabilities, deferred inflows of resources, and net position		<u>\$ 3,797,558</u>

The accompanying notes are an integral part of the financial statements.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Emergency Services Function,	Governmental	Capital Grants &	Net (Expense)
Expenses:	Activities	Contributions	& Changes
			In Net Position
General and administrative	\$ 55,851	\$ -	\$ (55,851)
Public safety	1,246,667	12,303	(1,234,364)
Interest	11,409	-	(11,409)
Total expenses	1,313,927	12,303	(1,301,624)
General revenues:			
Property tax			1,443,202
Sales tax			363,638
Interest income			4,813
Other revenue			1,541
Total general revenues			1,813,194
Change in net position			511,570
Net position, beginning of year			1,221,122
Net position, end of year			\$ 1,732,692

The accompanying notes are an integral part of the financial statements.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
BALANCE SHEET
DECEMBER 31, 2017

	2017 General Fund
Assets	
Cash and cash equivalents	\$ 1,485,480
Cash with fiscal agent	775,863
Property taxes receivable	687,688
Prepaid expenses	<u>1,275</u>
Total assets	<u>\$ 2,950,306</u>
Liabilities :	
Unearned revenue	\$ 899,460
Total liabilities	<u>899,460</u>
Deferred Inflow of Resources-unavailable revenue-property taxes	<u>687,688</u>
Fund balances:	
Unassigned	<u>1,363,158</u>
Total fund balances	<u>1,363,158</u>
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 2,950,306</u>

The accompanying notes are an integral part of the financial statements.

**COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Amounts reported for governmental activities in the
statement of net position are different because:

Fund balances of all governmental funds (Page 10)	\$ 1,363,158
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	30,185
Notes payable are not due and payable in the current period and, therefore, not reported in the funds	(506,011)
Payables on bond interests are not payable in the current period and, therefore, not reported in the funds	(1,892)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	532,049
Deposits for purchase order of capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	<u>315,203</u>
Net position of governmental activities (Page 8)	<u>\$ 1,732,692</u>

The accompanying notes are an integral part of the financial statements.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017
	General Fund
Revenues:	
Property tax revenue	\$ 1,452,611
Sales tax revenue	363,638
Capital grants and contributions	12,303
Interest	4,813
Other revenue	1,541
Total revenues	1,834,906
Expenditures:	
General and administrative	1,141,863
Public safety	55,851
Capital outlay	41,543
Debt Service: Principal	69,867
Interest	11,420
Total expenditures	1,320,544
Excess revenues over expenditures	514,362
Other Financing Sources (Uses):	
Issuance of debt	355,203
Deposit for purchase order of equipment	(315,203)
Total other financing sources (uses)	40,000
Net change in fund balance	554,362
Fund balances, beginning of year	808,796
Fund balances, end of year	\$ 1,363,158

The accompanying notes are an integral part of the financial statements.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2017

Net change in fund balances for all governmental funds (Page 12) **\$ 554,362**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are not reported as expenses in the statement of activities. 41,543

Deposits for purchase order of capital assets are not reported as expenses in the statement of activities. 315,203

Proceeds from the issuance of long-term debt are not reported as revenue in the statement of activities (355,203)

Depreciation of capital assets is not reported in the governmental funds (104,804)

Delinquent property tax revenues are deferred in the fund. This is the change in these amounts this year. (9,409)

Payment on long-term debt is not reported as an expenditure on the statement of activities 69,867

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest 11

Change in net position of governmental activities (Page 9) **\$ 511,570**

The accompanying notes are an integral part of the financial statements.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

A. Summary of Significant Accounting Policies

The Comal County Emergency Services District No. 5 (the "District") is a political subdivision of the State of Texas and was created by the Comal County Commissioner's Court after a public election on February 2, 2002. The District was created to provide emergency services and promote public safety, welfare, health and convenience for persons residing in the District. On January 1, 2011 the District assumed the operations of the Bulverde Area Volunteer Fire Department. All of the Department's assets and liabilities were transferred to the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of Commissioners ("Board"), a five-member group, has governance responsibilities over all activities related to fire emergency service operations within the jurisdiction of the District. The Board is appointed by the commissioner's Court of Comal County, Texas and has the exclusive power and duty to govern. The District receives funding from local and state government sources and must comply with the requirements of those funding entities. However, the District is included in the County of Comal, Texas' financial statements as a component unit and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Governmental activities generally are financed through property tax and sales tax revenue, which is all recorded as general revenue.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues includes: charges of customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The general fund meets the criteria of a major governmental fund. The District has no other governmental funds.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, grants and contributions. On an accrual basis, revenue from property taxes and sales taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied.

COMAL COUNTY EMERGENCY SERVICES DISTRICT #5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

A. Summary of Significant Accounting Policies – continued

b. Measurement Focus, Basis of Accounting – continued

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Amounts reported as program services include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. General revenues include all taxes and other miscellaneous receipts.

The District reports the following major governmental fund:

The General Fund is the operating fund of the District and is always classified as a major fund. The general fund is used to account for all financial resources. Primary expenditures are for general and administrative, public safety, and debt service.

3. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash in demand accounts, certificates of deposit, savings accounts, and other investments with an original maturity of 3 months or less.

4. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

5. Capital Assets

Capital assets, which include vehicles, buildings, and equipment are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more, and an estimated useful life in excess of one year. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Vehicles	7 - 10
Buildings	20 - 39
Equipment	3 - 10

COMAL COUNTY EMERGENCY SERVICES DISTRICT #5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

A. Summary of Significant Accounting Policies – continued

6. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheets. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The District adopted the provisions of GASB #63 Financial Reporting of Deferred Outflows of Resources, Deferred inflows of Resources, and Net Position. The statement requires governments to account for deferred outflows of resources, deferred inflows resources and net position as they relate to derivatives and service concession arrangements. Under the provisions of this statement, governments will also present a Statement of Net Position and changes the caption "Net Assets" to "Net Position".

The District adopted the provisions of GASB #65 Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows as resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resource or inflows of resources, certain items that were previously reported as assets and liabilities. At December 31, 2017, the District has \$657,503 in deferred inflows of resources on the statement of net position, related to ad valorem taxes that were reported as a receivable before the period for which property taxes are available. The District's financial reporting has been changed in conformity with the statement.

7. Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

8. Property Taxes

Property taxes are levied each October 1 on the taxable value as of the preceding January 1, the date a lien attaches, for all taxable real and personal property located in the District. Taxes are due by January 31 following the October 1 assessment date and become delinquent on February 1, at which time they begin accruing penalty and interest. Although the District's 2017 ad valorem taxes is levied on October 1, 2016, it is the District's policy to recognize revenues from the October 1 tax levy in the calendar year when the proceeds of this levy are budgeted and made available to the District's operations. The collections of the October 1, 2017 levy are considered unearned until the subsequent calendar or fiscal year as budgeted. The remaining receivable on unpaid levies are reported as deferred inflows of resources at year- end. No allowance for doubtful accounts is considered necessary at this time

COMAL COUNTY EMERGENCY SERVICES DISTRICT #5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

B. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits and Cash Equivalents:

At December 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in cash and cash equivalents) was \$1,485,480 and the bank balance was \$1,493,330.

2. Investments:

The GASB issued statement No. 40 "Deposits and Investment Risk Disclosures" which is effective for periods beginning after June 15, 2004. GASB 40 not only addresses custodial credit risk as noted below, but other common areas of investment risk as well, such as interest rate risk and credit risk.

3. Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At December 31, 2017, the District maintained \$1,493,330 of cash deposits at two financial institutions, of which \$105,203 at one of the financial institutions was in excess of the \$250,000 FDIC coverage and was not collateralized with pledged securities. The uninsured amount was due to an unintentional misclassification of the account type at the financial institution. The District is in the process of taking the necessary steps to rectify this situation, and believes that it was not exposed to any significant credit risk on their deposits.

The District's investments are not categorized by level of risk assumed by the District because the District invests in money market accounts.

4. Interest Rate Risk

The District manages its interest rate risk by using certificates of deposit, but by policy other investments purchased may not have a maturity longer than one year from date of purchase.

5. Concentration of Credit Risk

The District diversifies its investments in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity or specific issuer.

6. Credit Risk

The District is not exposed to credit risk.

The District is not exposed to foreign currency risk.

The District is required by Government Code Chapter 2256, The Public Funds Investment 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 District's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the District.

COMAL COUNTY EMERGENCY SERVICES DISTRICT #5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

C. Deposits and Investments – continued

6. Credit Risk – continued

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area, conducted as a part of the audit of the general purpose financial statements, disclosed one area of non-compliance, as discussed under "Custodial Credit Risk" on page 17.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

B. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets being depreciated				
Vehicles	\$1,754,369	\$ -	\$ -	\$1,754,369
Buildings	21,228	-	-	21,228
Equipment	129,894	41,543	-	171,437
Total capital assets being depreciated	1,905,491	41,543	-	1,947,034
Less accumulated depreciation for:				
Vehicles	1,240,223	89,420	-	1,329,643
Buildings	7,401	1,062	-	8,463
Equipment	62,557	14,322	-	76,879
Total accumulated depreciation	1,310,181	104,804	-	1,414,985
Total capital assets, net	\$ 595,310	\$ (63,261)	\$ -	\$ 532,049

Depreciation expense in the amount of \$104,804 was charged to the public safety function.

C. Capital Lease

On January 1, 2017, the District entered into a capital lease agreement with Bulverde-Spring Branch Emergency Services (BSB ES) for the purchase of the Cougar Bend Station. The lease calls for three annual payments of \$1 with an imputed interest rate of 0%. The lease is collateralized by the land and building. The District has the option to purchase the station for \$10 at the end of the lease.

D. Related Party Transactions

The District entered into a joint agreement with BSB ES (a non-profit organization) to provide emergency fire services for the response area of the District. Two (2) members of the Board of Commissioners also serve as voting members of the Board of the BSB ES. The District paid \$1,140,000 to BSB ES in accordance with the joint agreement for the fiscal year ended December 31, 2017.

COMAL COUNTY EMERGENCY SERVICES DISTRICT #5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

E. Long-Term Liabilities

A summary of notes payable at December 31, 2017, is as follows:

	Original Amount	Interest Rate	Balance Outstanding January 1, 2017	Issued	Retired	Balance Outstanding December 31, 2017
Government Capital	\$ 622,411	5.16%	\$ 220,675	\$ -	\$(69,867)	\$ 150,808
Frost Bank	355,203	2.75%	-	355,203	-	355,203
			<u>\$ 220,675</u>	<u>\$ 355,203</u>	<u>\$(69,867)</u>	<u>\$ 506,011</u>

	Amount Due Within One Year
Government Capital	\$ 73,480
Frost Bank	9,183
	<u>\$ 82,663</u>

The District incurred \$11,409 of interest expense for the year ended December 31, 2017, no interest was capitalized for the year.

F. Commitment for Purchase of Capital Assets

At December 31, 2017, a note payable in the amount of \$355,203 was outstanding to Frost Bank for the future purchase of equipment. A deposit was made on this equipment but the equipment purchase has not been finalized nor the equipment received as of the asset date, thus the short-term deposit on equipment was reported on the statement of net position.

G. Subsequent Events

The District has evaluated subsequent events through May 18, 2018, the date which the financial statements were available to be issued. There are no subsequent events to be reported.

H. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the fiscal year 2017, the District obtained general liability coverage through a commercial insurer, VFIS of Texas. The District continues to carry commercial insurance for other risks of loss as well. There were no significant reduction in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three (3) fiscal years.

I. Stewardship, compliance, and accountability

For the year ended December 31, 2017, expenditures exceed appropriations in the general fund by \$58,528. These over expenditures were funded by the reserves in the Districts fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 5
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		GAAP Basis Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax revenue	\$ 1,441,171	\$ 1,441,171	\$ 1,452,611	\$ 11,440
Sales tax revenue	363,900	363,900	363,638	(262)
Other revenue	13,500	13,500	13,844	344
Interest earnings	4,500	4,500	4,813	313
Total revenues	1,823,071	1,823,071	1,834,906	11,835
Expenditures:				
General government	1,141,200	1,141,200	1,141,863	(663)
Public safety	39,539	39,539	55,851	(16,312)
Capital outlay	-	-	41,543	(41,543)
Debt service				
Principal	69,868	69,868	69,867	1
Interest	11,409	11,409	11,420	(11)
Total expenditures	1,262,016	1,262,016	1,320,544	(58,528)
Excess revenue over (under) expenditures before other financing (uses)	561,055	561,055	514,362	(46,693)
Other financing (uses):				
Deposit for purchase order of equipment	(315,000)	(315,000)	(315,203)	(203)
Net excess revenue over (under) expenditures	246,055	246,055	199,159	(46,896)
Fund balances, beginning of year	808,796	808,796	808,796	-
Fund balances, end of year, - budgetary basis	\$ 1,054,851	\$ 1,054,851	\$ 1,007,955	\$ (46,896)
Adjustments to reconcile budget basis to GAAP basis:				
Other financing sources:				
Issuance of long-term debt			355,203	
Fund balances, end of year - Generally Accepted Accounting Principles (GAAP) Basis			\$ 1,363,158	