

KYLE VOLUNTEER FIRE DEPARTMENT
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH PRIOR YEAR SUMMARIZED INFORMATION

KYLE VOLUNTEER FIRE DEPARTMENT

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Independent Auditors' Report

To the Board of Directors
Kyle Volunteer Fire Department
Kyle, Texas

We have audited the accompanying statement of financial position of the Kyle Volunteer Fire Department (a non-profit organization) as of September 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Kyle Volunteer Fire Department's 2011 financial statements and, in our report dated May 31, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kyle Volunteer Fire Department, as of September 30, 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


John F. Lewis, P.C.
Georgetown, Texas

February 26, 2014

KYLE VOLUNTEER FIRE DEPARTMENT
STATEMENT OF FINANCIAL POSITION, WITH PRIOR YEAR SUMMARIZED INFORMATION
SEPTEMBER 30, 2012

	2012	(Comparative Totals Only) 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 295,557	\$ 292,776
Accounts receivable, net allowance for bad debts	32,157	43,698
Accounts receivable - employee	-	57
Prepaid expenses	3,696	600
Total Current Assets	331,410	337,131
Fixed Assets		
Land (non-depreciable)	170,695	170,695
Buildings	4,349,333	4,265,555
Building improvements	34,635	34,635
Computers	16,439	16,439
Equipment	440,328	435,063
Furniture and fixtures	172,027	172,027
Radios and SCBA	342,070	342,070
Vehicles	1,921,317	1,937,317
Less: accumulated depreciation	(2,895,886)	(2,538,362)
Total Fixed Assets	4,550,958	4,835,439
 TOTAL ASSETS	 \$ 4,882,368	 \$ 5,172,570
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 21,007	\$ 13,188
Accrued payroll	100	19,991
Accrued compensated absences	29,797	33,051
Capital leases payable, current portion	126,674	144,769
Notes payable, current portion	146,179	131,050
Total Current Liabilities	323,757	342,049
Long-Term Liabilities		
Capital leases payable, less current portion	-	126,674
Notes payable, less current portion	3,295,046	3,362,050
Total Long-Term Liabilities	3,295,046	3,488,724
Total Liabilities	3,618,803	3,830,773
Net Assets		
Unrestricted net assets	1,263,565	1,341,797
Total Net Assets	1,263,565	1,341,797
 TOTAL LIABILITIES AND NET ASSETS	 \$ 4,882,368	 \$ 5,172,570

See accompanying notes to the financial statements and independent auditors' report

KYLE VOLUNTEER FIRE DEPARTMENT
STATEMENT OF ACTIVITIES, WITH PRIOR YEAR SUMMARIZED INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012

		(Comparative Totals Only)
	2012	2011
UNRESTRICTED SUPPORT AND OTHER REVENUE		
Service revenue	\$ 1,815,345	\$ 1,742,097
Grants and contributions	107,226	154,583
Training center income	44,657	25,344
Insurance reimbursement billings	11,697	11,947
Property lease and interest income	16,800	17,365
Fundraising	13,216	9,016
In-kind donations	27	2,360
Ladies auxiliary and miscellaneous income	6,602	4,092
TOTAL UNRESTRICTED SUPPORT AND OTHER REVENUE	2,015,570	1,966,804
EXPENSES		
Bad debt expense	5,970	-
Compliance and testing	6,384	5,346
Depreciation	373,524	417,751
First responders	12,273	12,672
General supplies	15,042	18,977
Insurance	44,936	43,811
Interest expense	183,577	195,716
Non-operating and fundraising expenses	18,434	28,547
Payroll taxes	75,306	74,956
Personnel and benefits	1,061,652	1,037,018
Professional services	20,080	15,212
Public relations	768	383
Radio service	-	11,545
Repairs and maintenance	37,831	28,234
Small equipment	20,979	13,083
Special projects	13,921	16,579
Telephone	11,807	11,207
Training	56,550	33,764
Utilities	42,506	41,472
Vehicle expense	84,762	75,791
TOTAL EXPENSES	2,086,302	2,082,064
CHANGE IN NET ASSETS	(70,732)	(115,260)
UNRESTRICTED NET ASSETS, beginning of the year	1,341,797	1,457,057
TRANSFER OF NET ASSETS - HCESD#5	(7,500)	-
UNRESTRICTED NET ASSETS, end of the year	\$ 1,263,565	\$ 1,341,797

See accompanying notes to the financial statements and independent auditors' report

KYLE VOLUNTEER FIRE DEPARTMENT
STATEMENT OF CASH FLOWS, WITH PRIOR YEAR SUMMARIZED INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>2012</u>	<u>(Comparative Totals Only) 2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (70,732)	\$ (115,260)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	373,524	417,751
Gain on sale of asset	(3,500)	-
(Increase) decrease in operating assets:		
Accounts receivable	6,541	2,916
Accounts receivable - employee	57	50
Prepaid expenses	(3,096)	(600)
Allowance for bad debt	5,000	
Increase (decrease) in operating liabilities:		
Accounts payable	7,819	(4,285)
Accrued payroll	(19,891)	5,422
Accrued compensated absences	(3,254)	2,114
Accrued other	-	(8,595)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>292,468</u>	<u>299,513</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of fixed assets	3,500	-
Purchase of fixed assets	<u>(5,265)</u>	<u>(11,548)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,765)</u>	<u>(11,548)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made on notes payable	(135,653)	(126,878)
Payments made on capital leases payable	(144,769)	(139,177)
Transfer of ownership - HCESD#5	<u>(7,500)</u>	<u>-</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(287,922)</u>	<u>(266,055)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,781	21,910
CASH AND CASH EQUIVALENTS, beginning of the year	<u>292,776</u>	<u>270,866</u>
CASH AND CASH EQUIVALENTS, end of the year	<u>\$ 295,557</u>	<u>\$ 292,776</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 183,557</u>	<u>\$ 195,716</u>

See accompanying notes to the financial statements and independent auditors' report

KYLE VOLUNTEER FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kyle Volunteer Fire Department, a non-profit organization, (hereafter referred to as the Department) was organized on October 23, 1980 pursuant to the laws of the State of Texas. The Department operates out of three stations: Station #1 at 210 West Moore, Station #2 at 150 Bunton Creek Lane (owned by the City of Kyle) and the East Sub-Station on High Road. These facilities are staffed primarily by volunteers of the Department along with nineteen full time employees, with fluctuating part-time staff and volunteers. Station #1 and #2 are also occupied by San Marcos-Hays County EMS. The objective of the Department is to deliver emergency services to the citizens of Kyle and surrounding areas that comprise the Hays County Emergency Services District #5 (HCESD#5).

Method of Accounting

The financial statements of the Department have been prepared utilizing the accrual basis of accounting. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

Use of Estimates

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

Receivables

Accounts receivable consist of amounts due from uncollected contributions. The Department reviews the receivables periodically throughout the year. As of September 30, 2012, an allowance for doubtful accounts of \$5,000 had been recorded.

Income Tax Status

The Department is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Department is also exempt from state income taxes in the state of Texas under Sections 151.310, 156.102, and 171.062 of the Texas Tax Code. Therefore, no provision for income taxes is included in the financial statements. Provisions for income taxes on unrelated business income are made when required for income from non-exempt activities and paid during the year. Additionally, the Department has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the code.

KYLE VOLUNTEER FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status (continued)

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, requires extensive disclosures about uncertain tax positions. The requirements of this standard are applicable to nonprofit organizations. The Department evaluates any uncertain tax positions using the provisions of FASB ASC 450, *Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position.

The Department does not believe that it has engaged in any situation that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and therefore, no loss contingency has been recognized in the accompanying financial statements. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the Department has no open examinations with either the Internal Revenue Service or state taxing authorities.

Financial Statement Presentation

The Department reports under the provisions of FASB ASC Section 958-205, *Not-for-Profit Organizations*. Under FASB ASC 958-205, the Department is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted - Net assets that are not subject to any donor-imposed restriction.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Department and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the restriction is met in the same accounting period as the restricted donation, the donation is considered unrestricted during the accounting period. The Department had no temporarily restricted assets during the year.

Permanently restricted - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Department. The Department had no permanently restricted assets during the year.

In addition, the Department is required to present a Statement of Cash Flows.

KYLE VOLUNTEER FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Department considers all cash and other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statements of cash flows exclude permanently restricted cash and cash equivalents.

Compensated Absences

The Department expenses vacation in the year earned. Upon termination, the employee is compensated for any accrued but unused vacation based on years of service.

Property and Equipment

Property and equipment with a value greater than \$5,000 are capitalized and carried at cost. Depreciation of buildings, equipment, and furniture and fixtures is provided using the straight-line method based on the following estimated useful lives:

Buildings	40 years
Equipment	5-10 years
Furniture and fixtures	5-15 years

Expenses for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenses for repairs and maintenance are charged to expenses as incurred.

Sources of Revenue and Support

The Department is primarily funded through contributions from governmental agencies, local businesses, and individuals. A significant amount of funding is provided by HCESD #5, which receives funding through property taxes collected by Hays County.

Contributions

Under FASB ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions that are reported as temporarily or permanently restricted support are reclassified to unrestricted net assets upon expiration of the time or purpose restriction. Contributions that are satisfied in the year of receipt are reported as revenue in the temporarily restricted classification and then reclassified to unrestricted in the same year.

KYLE VOLUNTEER FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Cash Contributions

Donated time and services from unpaid volunteers are not included in these financial statements since the type of services provided do not meet the provisions for reporting under FASB ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*. Donations of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Donations of equipment and supplies are recorded as an unrestricted contribution at current fair market value on the date of contribution, unless the donor has restricted the asset to a specific use.

Functional Allocation of Expenditures

The cost of providing the various programs and activities of the Department are summarized on a functional basis below. Costs are charged to administration and program services based on direct expenditures incurred. Expenditures not directly related to these functional categories are allocated between administrative and program services based on the budget allocations and reasonable management estimates.

The following is a functional percentage allocation of expenses for the year ended September 30, 2012:

Program and Membership	90%
Administration	10%

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Fair Value Measurements

The Department's financial instruments are accounted for at fair value with unrealized gains and losses reported in the Income Statement. FASB ASC Section 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of a given measurement date, and establishes a framework for measuring fair value. This standard also establishes a three-level hierarchy for such measurements based on the reliability of observable and unobservable inputs as follows:

Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

KYLE VOLUNTEER FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (continued)

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose significant inputs are observable.

Level 3 - Valuations are based on unobservable inputs for the asset or liability that reflects the reporting entity's own data and assumptions that market participants would use in pricing the asset or liability.

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended September 30, 2012, is as follows:

	Balance 9/30/2011	Additions	Disposals/ Reclassifications	Balance 9/30/2012
Land	\$ 170,695	\$ -	\$ -	\$ 170,695
Buildings	4,265,555	83,778	-	4,349,333
Building improvements	34,635	-	-	34,635
Computers	16,439	-	-	16,439
Equipment	435,063	5,265	-	440,328
Furniture and fixtures	172,027	-	-	172,027
Radios and SCBA	342,070	-	-	342,070
Vehicles	1,937,317	-	(16,000)	1,921,317
Less: accumulated depreciation	<u>(2,538,362)</u>	<u>(373,524)</u>	<u>16,000</u>	<u>(2,895,886)</u>
Total Property and Equipment				
Net of Accumulated Depreciation	<u>\$ 4,835,439</u>	<u>\$ (284,481)</u>	<u>\$ -</u>	<u>\$ 4,550,958</u>

NOTE C - CAPITAL LEASES PAYABLE

The Department acquired equipment under long-term leases. For financial reporting purposes, the present value of the minimum lease payments has been capitalized. As of September 30, 2012, the property under these capital leases had a total cost of \$644,781 and related accumulated depreciation of \$459,338.

KYLE VOLUNTEER FIRE DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE C - CAPITAL LEASES PAYABLE (Continued)

Capital lease with interest at 3.4%, due in monthly installments of \$11,738, including interest, through August 25, 2013, secured by a Pierce

Rescue Pumper	\$ <u>126,674</u>
Total Capital Leases Payable	\$ <u><u>126,674</u></u>

The following are maturities of the capital leases payable for the year ending September 30, 2012:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ <u>126,674</u>	\$ <u>2,439</u>
Totals	\$ <u><u>126,674</u></u>	\$ <u><u>2,439</u></u>

NOTE D - NOTES PAYABLE

On January 15, 2012 the Department refinanced a note originally used for the construction of the new fire station. Fees of \$83,739 were consolidated into the principal of the note at the date of the refinancing. The notes payable at September 30, 2012 consisted of the following:

Note payable with interest at 4.535%, due in annual installments of \$285,779 including interest, through January 15, 2029, secured by all of lots 1, 2, 3, 4, and 5, in Block 8 (Original Town of Kyle), and all revenues from fundraisers, contributions, HCESD #5 and other sources. \$ 3,336,772

Note payable with interest at 6.25%, due in monthly installments of \$1,517, including interest, through July 1, 2015, with a balloon payment of \$79,509 due on August 1, 2015, secured by a Pierce Pumper Truck and Ford Rescue Truck. 104,453
 Total Notes Payable \$ 3,441,225

KYLE VOLUNTEER FIRE DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE D - NOTES PAYABLE (Continued)

The following is a list of maturities of notes payable for the year ending September 30, 2012:

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 146,179	\$ 157,804
2014	153,034	150,952
2015	231,741	143,397
2016	153,591	132,188
2017	160,556	125,222
Thereafter	<u>2,596,124</u>	<u>828,658</u>
Totals	<u>\$ 3,441,225</u>	<u>\$ 1,538,221</u>

NOTE E - RELATED PARTY TRANSACTIONS

The Department's Board of Directors contains a member of the HCESD#5 Board of Commissioners. HCESD #5 provides a significant amount of funding to the Department. Subsequent to year-end a significant portion of the operations of the Department were transferred to HCESD #5.

NOTE F - ASSETS OWNED BY ANOTHER ENTITY

The Department uses Engine 22 in operations. The engine is owned by the City of Kyle and is currently housed at Station #2.

NOTE G - CONCENTRATIONS, RISKS AND UNCERTAINTIES

At times throughout the year, bank balances exceeded Federal Deposit Insurance Corporation (FDIC) coverage of \$250,000. As of September 30, 2012 the bank balance exceeded the FDIC coverage limit by \$45,557. Management monitors all accounts and the Department has not experienced any losses on its deposits.

The Department is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; environmental liabilities; and natural disasters. During the year ended September 30, 2012, management believes the Department was covered by insurance for these various risks, and there were no unsettled claims for the year ended September 30, 2012.

KYLE VOLUNTEER FIRE DEPARTMENT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE G - CONCENTRATIONS, RISKS AND UNCERTAINTIES

During the year ended September 30, 2012, the Department received a significant amount of support from HCESD #5. The Department received a total of \$1,815,345, or 90% of funding from HCESD #5 for the year ended September 30, 2012. If the Department were to receive a significant reduction or loss of this funding, it could have a significant impact on the operations and ability to provide services to the HCESD #5 emergency service area or threaten its existence.

NOTE H - FAIR VALUE OF FINANCIAL INSTRUMENTS

As of September 30, 2012, the fair value of financial instruments consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance 9/30/12</u>
Cash and cash equivalents	\$ <u>295,557</u>	\$ _____ -	\$ _____ -	\$ <u>295,557</u>
Total	\$ <u>295,557</u>	\$ _____ -	\$ _____ -	\$ <u>295,557</u>

NOTE I - SUBSEQUENT EVENTS

Management has evaluated all subsequent events for disclosure and/or recognition through the date of the *Independent Auditors' Report*, which is the date the financial statements were available to be issued.

Subsequent to year end the Department turned over a significant portion of its operations to HCESD#5. The process was initiated with a \$7,500 transfer of net assets by year end.