

Hays County Emergency Services District No. 5

**Independent Auditor's Report and
Financial Statements
September 30, 2016**

JANSEN AND GREGORCZYK

Certified Public Accountants
P.O. Box 1778 Kyle, TX 78640
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Hays County Emergency Services District #5

We have audited the accompanying financial statements of the governmental activities of Hays County Emergency Services District #5 (the District), as of and for the year ended September 30, 2016, 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. 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 of the Hays County Emergency Services District #5, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios – TCDRS, the schedule of employer contributions – TCDRS and the budgetary comparison information on pages 3-8 and on pages 19-21 to 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.

Jansen and Gregorczyk

Jansen and Gregorczyk

Kyle, Texas
May 5, 2017

**HAYS COUNTY EMERGENCY SERVICES DISTRICT #5
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
SEPTEMBER 30, 2016**

Our discussion and analysis of the Hays County Emergency Services District # 5 (the District's) financial performance provides an overview of the District's financial activities for the year ended September 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

The financial report consists of three parts: Management's Discussion and Analysis (this section), the financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- During the year, the District had expenditures of \$2,817,744 compared to total revenues of \$2,991,090 resulting in an increase in net assets of \$173,346 for the year ended September 30, 2016.
- The District's cash balance increased by \$99,492 for the fiscal year.
- The District placed a new fire engine in service in February, 2016.
- The District's ad valorem tax rate remained at .10 per \$100 of assessed valuation for the fiscal year ended September 30, 2016 which is the statutory limit, as established by the State of Texas constitution.
- The District had a full year of sales tax revenue.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements: The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

Reporting the District as a Whole

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities provide information about the District as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or *financial position*. Over time, increases or decreases in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's property tax to assess the *overall health* of the District.

THE DISTRICT AS A WHOLE

The District's total net assets increased by \$173,346 in the year ended September 30, 2016. Our analysis of the District's activities below focuses on net assets (Table 1) and the changes in net assets (Table 2).

	2016	2015	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 1,069,751	\$ 910,560	\$ 159,191	17.5%
Non Current and Capital Assets	4,391,386	4,593,836	(202,450)	-4.4%
Total Assets	5,461,137	5,504,396	(43,259)	-0.8%
Deferred Outflows related to pensions	112,756	88,576		
Current Liabilities	450,838	105,711	345,127	326.5%
Long-term Liabilities Outstanding	2,925,063	3,479,819	(554,756)	-15.9%
Total Liabilities	3,375,901	3,585,530	(209,629)	-5.8%
Deferred Inflows related to pensions	74,528	114,385		
Net Position:				
Net investment in capital assets	1,236,768	1,214,324	22,444	1.8%
Unrestricted	843,266	678,733	164,533	24.2%
Total net position	\$ 2,080,034	\$ 1,893,057	\$ 186,977	9.9%
Revenues				
Ad Valorem Taxes	\$ 2,515,683	\$ 2,129,660	\$ 386,023	18.1%
Interest Income	3,160	2,938	222	7.6%
Other Income	381,258	318,956	62,302	19.5%
Grant Income	90,989	149,830	(58,841)	
Total revenues	2,991,090	2,601,384	\$ 389,706	15.0%
Expenses				
Firefighting Operations	2,669,483	2,198,245	471,238	21.4%
Legal & Accounting	27,013	8,069	18,944	234.8%
Interest Expense	121,248	126,137	(4,889)	-3.9%
Total expenses	2,817,744	2,332,451	485,293	20.8%
Change in net position	173,346	268,933	(95,587)	35.5%
Net position - beginning	1,906,688	1,637,755	268,933	16.4%
Net position - ending	\$ 2,080,034	\$ 1,906,688	\$ 173,346	9.1%

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements were \$839,762 at September 30, 2016.

The District has sufficient revenues to pay expenses of the District.

General Fund Budgetary Highlights

The General Fund had an excess of revenues over expenditures of \$99,581. The reasons for the budget difference included the following:

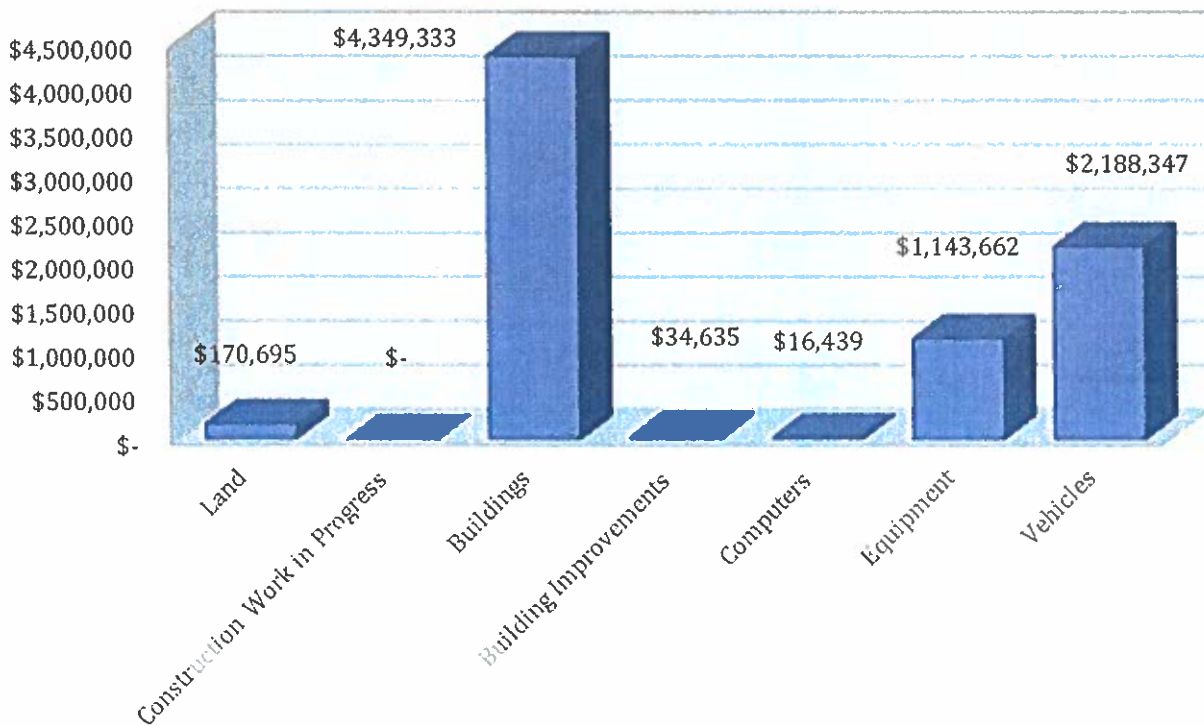
- Tax revenues and grant income were higher than anticipated.
- Overall firefighting expenses were higher than budgeted.

Capital Asset and Debt Administration

The District's investment in capital assets at September 30, 2016, net of accumulated depreciation, totaled \$4,391,386. Capital assets are classified as shown below:

Land	\$ 170,695
CWIP	-
Bldgs & Impr	4,383,968
Vehicles & Eqpt	<u>3,348,448</u>
Accum	<u>(3,511,725)</u>
	<u>\$ 4,391,386</u>

Capital Assets (excluding accum depr)



Debt Administration

The District's long-term debt at September 30, 2016, net of the current portion, totaled \$2,925,063 for loans. The current portion of the long-term debt was \$229,555. Fire stations and fire apparatus are pledged as collateral.

Debt Service Ratio: The District maintains control over its debt load by maintaining its debt service to total revenues ratio (the "Debt Service Ratio") at 35% or less with the ad valorem tax rate at 10.00 cents per \$100 of assessed valuation. The District feels that the Debt Service Ratio is more meaningful than the debt to equity ratio because the Debt Service Ratio is a better indicator of the District's ability to service the debt and still be able to pay annual operating expenses. The District's Debt Service Ratio as of September 30, 2016 is total debt service of \$342,142 / total revenues of \$ 2,991,090 for a ratio of 11.4%.

Economic Factors and Next Year's Budgets and Rates

The District's appointed officials considered many factors when setting the fiscal year 2016 budget and tax rates. Some of those factors include the economy and the anticipated needs of the District for operations and capital outlay in the next year.

Contacting the District's Financial Management

This financial report is designed to provide the taxpayers with a general overview of the District's finances and to show 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 office at:

Beth Smith, President
Hays County Emergency Services District #5
P.O. Box 1385
Kyle, TX 78640

Hays County Emergency Services District #5
Statement of Net Position and Governmental Funds Balance Sheet
As of September 30, 2016

ASSETS	General Fund	Adjustments (Note 5)	Statement of Net Assets
Cash	\$ 177,677		\$ 177,677
Investments	758,352		758,352
Accounts receivable	52,333		52,333
Taxes receivable	81,389	-	81,389
Capital assets:			
Land	-	170,695	170,695
Other capital assets, net of depreciation	-	4,220,691	4,220,691
	<u>1,069,751</u>		<u>5,461,137</u>
 DEFERRED OUTFLOWS OF RESOURCES			
Difference actual and expected experience	-	47,365	47,365
Difference actual and projected plan earnings	-	10,670	10,670
Changes on assumptions	-	937	937
Contributions	-	53,784	53,784
	<u>-</u>		<u>112,756</u>
Total Assets	<u>\$ 1,069,751</u>		<u>\$ 5,573,893</u>
 LIABILITIES			
Accounts payable	14,024	-	14,024
Accrued interest payable	-	81,392	81,392
Accrued payroll	125,867	-	125,867
Leases Payable		3,504	3,504
Long -term liabilities:		-	-
Due within 1 year	-	229,555	229,555
Due in more than 1 year	-	2,921,559	2,921,559
Net pension liability	-	74,528	74,528
Total liabilities	<u>139,891</u>		<u>3,450,429</u>
 DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 81,389	\$ (81,389)	\$ -
Difference actual and projected plan earnings	-	43,430	43,430
	<u>81,389</u>		<u>43,430</u>
 FUND BALANCES/NET POSITION			
Fund Balances			
Fund balance - unassigned	848,471	(848,471)	
	<u>\$ 1,069,751</u>		
 NET POSITION			
Net investment in capital assets		1,240,272	1,240,272
Unrestricted		839,762	839,762
			<u>2,080,034</u>
			<u>\$ 5,573,893</u>

See accompanying notes to the financial statements

Hays County Emergency Services District #5
Statement of Activities and Governmental Funds Statement
of Revenues, Expenditures and Changes in Fund Balances
For the Year ended September 30, 2016

	General Fund	2016 Adjustments (Note 6)	Statement of Activities
Expenses:			
Firefighting and related expenses	\$ 381,335		\$ 381,335
Personnel and related expenses	1,920,308	(20,607)	1,899,701
Depreciation	-	310,679	310,679
Tax Collection Expenses	21,942		21,942
Professional Services	27,013		27,013
Administrative Expenses	36,475		36,475
Capital Outlay	108,229	(108,229)	-
Debt Service	224,894	(224,894)	-
Interest Expense	126,532	(5,284)	121,248
Insurance	19,351	-	19,351
Total expenses	<u>\$ 2,866,079</u>		<u>\$ 2,817,744</u>
General revenues:			
Ad Valorem Tax Revenues	2,490,253	25,430	2,515,683
Inspection and Training Income	137,466	-	137,466
F1 Contract and Site Lease Income	45,088		45,088
Sales and Use Tax Income	135,321		135,321
Grant Income	90,989		90,989
Other Income	63,383		63,383
Gain on sale of capital assets	-	-	-
Interest Income	3,160		3,160
Total general revenue	<u>\$ 2,965,660</u>		<u>\$ 2,991,090</u>
Revenue over/(under) expenditures	99,581		173,346
Other financing sources:			
Proceeds from sale of capital assets	-	-	-
Net change in fund balance	<u>99,581</u>		<u>173,346</u>
Net position/fund balance - beginning	748,890		1,906,688
Net position/fund balance - ending	<u><u>\$ 848,471</u></u>		<u><u>\$ 2,080,034</u></u>

See accompanying notes to the financial statements

Hays County Emergency Services District #5
Notes to the Financial Statements
For The Year Ending September 30, 2016

Note 1- Summary of Significant Accounting Policies

The accounting policies of the Hays County Emergency Services District #5 (the District) conform to U. S. generally accepted accounting principles applicable to governments promulgated by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The more significant of the District's policies are described below.

A. The Reporting Entity

The Hays County Emergency Services District #5 was created by an election of the residents of Hays County residents from within what would be the geographical boundaries for the District. The District was established to arrange for fire and rescue protection services within its boundaries. The District handles all financial matters for the fire department.

The District is under full control and management of a five commissioner Board of Commissioners. The commissioners are appointed by the Hays County Commissioners. For financial reporting purposes, the District includes all funds that are controlled by, or dependent upon, actions of the Board of Commissioners. Control by, or dependence upon, the Board was determined on the basis of the Board's full control of budget adoption and taxing authority.

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operation; thus data from these units would be combined with data of the primary government. Discretely presented component units, on the other hand, would be reported in separate organizations that meet the aforementioned criteria; therefore, none are included in the accompanying general-purpose financial statements.

Hays County ESD #5 is included in the basic financial statements of Hays County as a component unit as set forth in GASB 14. Hays County evaluated whether ESD's in the county should be included based on the criteria described in GASB 14, "The Financial Reporting Entity".

Effective October 1, 2012 the District assumed all operations from the Kyle Volunteer Fire Department.

B. Government-Wide Financial and Fund Financial Statements

The District is considered a special purpose government under GASB Statement No. 34. This allows the district to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements to be prepared on the modified accrual basis of accounting is met with the "General Fund" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's activities. The District services are supported primarily by ad valorem taxes. The Statement of Activities demonstrates how the District used revenue.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within thirty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest and taxes associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

D. Cash and Cash Equivalents

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and so near maturity that there is no significant risk of changes in value due to changes in interest rates.

E. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed. When both unassigned and committed or assigned funds are available for expenditure, committed or assigned funds are used first.

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimations 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 revenues and expenses during the reporting period. Actual results may differ from those estimates.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The District reported unavailable revenue in the form of property taxes as Deferred Inflows of Resources in the Statement of Net Position. Deferred Inflows arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In general, monies received within thirty-one days after year-end are considered to have been for prior year services.

H. Compensated Absences

Full time regular employees work either a 40 or 45 hour per week schedule. Firefighters are scheduled based on either a day shift or 24/48 hour shift schedule and typically work 56 hours per week. Accruals for leave are based on length of service and the schedule worked. Employees may accrue up to 288 hours of paid leave but are only allowed to carry forward a maximum of 72 hours to the next calendar year. Firefighters that have been with the department for more than 21 years can receive 432 hours of leave. Accrued leave will be paid to employee upon

separation of employment based on when notice of termination is given. As of September 30, 2016, \$97,106 was accrued for as a payable for paid leave.

I. Capital Assets

All capital assets are recorded at historical cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$5,000 for assets with a useful life of two years or more. The District does not possess any infrastructure. Improvements are capitalized. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset's life are recorded as expenses. Depreciation is calculated on a straight-line basis. Estimated useful lives are as follows:

Trucks and Equipment	5-10 years
Furniture and Fixtures	5-15 years
Buildings	40 years

NOTE 2 – Deposits

The District's deposits exposed to concentrations of credit risk consist of cash, which is deposited in one major financial institution. At September 30, 2016, the carrying amount of the District's cash deposits was \$936,028, and the bank balance was \$956,996. This District had Pledged Securities from the financial institution for the excess over the FDIC insurance maximum.

NOTE 3 – Budget Variances

The District adopts an annual budget for the General Fund. The District amends the budget as needed during the year. There were no current year amendments. Certain revenue and expenses were different than budgeted, resulting in a higher than budgeted fund balance.

NOTE 4 – Ad Valorem Taxes

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on October 1 and are payable in full by the following January 31. The District employs the services of the Hays County Appraisal District for assessing and billing its property taxes and employs the services of the Hays County Tax Assessor/Collectors for the collection of its taxes. Revenues are recognized when received by the District. The tax rate was \$0.10 per \$100 of assessed valuation.

NOTE 5 – Capital Assets

	Balance <u>9/30/15</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>9/30/16</u>
Land	\$ 170,695	\$ -		\$ 170,695
Construction Work in Progress	550,000	-	(550,000)	-
Buildings	4,349,333	-	-	4,349,333
Building Improvements	34,635	-	-	34,635
Computers	16,439	-	-	16,439
Equipment	1,049,648	94,014	-	1,143,662
Vehicles	1,624,132	564,215	-	2,188,347
Total Capital Assets	<u>\$ 7,794,882</u>	<u>\$ 658,229</u>	<u>\$ (550,000)</u>	<u>\$ 7,903,111</u>
Less: Accumulated Depreciation	(3,201,046)	-	(310,679)	(3,511,725)
Net Capital Assets	<u>\$ 4,593,836</u>	<u>\$ 658,229</u>	<u>\$ (860,679)</u>	<u>\$ 4,391,386</u>

NOTE 6 – Adjustments to Convert Fund Statements to Government-Wide

Unrestricted fund balance - governmental fund	\$ 848,471
Increase net position for capital assets not reported in the governmental funds	4,391,386
Debt service not included in general fund	(3,154,618)
Taxes receivables deferred in the fund financial statements and in the government-wide financial statements	81,389
Restatement of prior year ending net position due to implementation of GASB 68 in current year	(5,202)
Accrued interest expense on long term debt not reported in the fund financials	(81,392)
Net position - governmental activities	<u>\$ 2,080,034</u>
Net change in fund balance - governmental fund	99,581
Capital outlays recognized as expenditures in the fund financial statements	108,229
Depreciation expense not recognized in the fund financial statements	(310,679)
Long-term debt principal payments are recognized as expenditures in the fund financial statements	224,894
Change in pension benefit accrual	20,607
Change in interest expense not recognized in the General Fund	5,284
Gain on sale of capital assets not reflected in the fund financials	-
Net increase in tax receivable deferred in the fund financial statements and not in the government-wide financial statements	25,430
Change in net position - governmental activities	<u>\$ 173,346</u>

NOTE 7 – Long Term Debt

Long term debt as of September 30, 2016 is as follows:

Bank	Desc	Collateral	Amount of Original Issue	Maturity Date	Interest Rate	Balance 9/30/15	Additions	Retirements	Balance 9/30/16
Citizens NB	Loan	Station #1	\$ 3,336,772	2029	3.90%	\$ 2,900,679	-	\$ 159,693	\$ 2,740,986
Broadway	Loan	Engine	472,000	2022	2.88%	472,000	-	61,872	410,128
			<u>\$ 3,808,772</u>			<u>\$ 3,372,679</u>	-	<u>\$ 221,565</u>	<u>\$ 3,151,114</u>
							Less: current portion		(229,555)
									<u>\$ 2,921,559</u>

Debt service payment by year.

Years	Principal	Interest	Total
2017	229,555	118,542	348,097
2018	237,838	110,259	348,097
2019	246,425	101,672	348,097
2020	255,327	92,769	348,096
2021	264,556	83,540	348,096
2022-2026	1,159,024	280,088	1,439,112
2027-2031	758,389	59,874	818,263
	<u>\$ 3,151,114</u>	<u>\$ 846,744</u>	<u>\$ 3,997,858</u>

NOTE 8 – Capital Leases

The District has entered into a lease agreement with Xerox Financial for the lease of a copier. The following schedule presents future minimum lease payments as of September 30, 2016.

	<u>2017</u>	<u>Total</u>
	\$ 3,624	\$ 3,624
Net minimum lease payments		3,624
Less amount representing interest		<u>(120)</u>
Present value of minimum lease payments		<u>\$ 3,504</u>

Amortization of lease equipment under capital assets is included with depreciation expense.

NOTE 9 – Other Matters

The City of Kyle paid a total of \$19,351 on behalf of the District for property insurance coverage. This has been recorded as an in kind income item and offset by the same amount as an insurance expense.

NOTE 10 – Subsequent Events

The board has reviewed subsequent events from year end to the date of this report, May 5, 2017.

NOTE 11 – Risk Management

The District is exposed to various risks of loss including general liability, property damage, and worker's compensation. The District insures against risk through participation in the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool, consisting of approximately 2,600 member cities/political subdivisions located throughout the State of Texas.

The District pays premiums to the risk pool for its general liability, property, auto and worker's compensation coverage. The District's risk is limited to the amount of premiums paid unless the pool should fail, in which case, the District would be liable for its ratable share of the pool deficit.

NOTE 12 – Pension and Deferred Compensation Plans

DISTRICT STAFF

The District provides a 457(b) Deferred Compensation Plan for all employees that are considered full time employees. Participation is voluntary and the employee is eligible to contribute from 2%-10% maximum and the District contributes up to a maximum of 2% of the employees gross salary.

Effective October 1, 2013 the District entered into a pension plan with Texas County & District Retirement System (TCDRS). The District provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide system, an agent multiple-employer defined benefit public employee retirement system. The plan provisions that have been adopted by the Board of the District are within the options available in the governing state statutes of TCERS.

TCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TCERS; the report also provides detail explanations of the contributions, benefits and actuarial methods and assumptions used by TCERS. This report may be obtained by calling TCERS at 800-823-7782; in addition, the report is available on TCERS' website at www.tcders.org. Plan provisions for the District were as follows:

Benefits Provided

The plan provisions that have been adopted by the Board of the District are within the options available in the governing state statutes of TCDRS. TCDRS provides retirement benefits that are calculated based on age, average compensation and service credit as follows:

Employee deposit rate	4.00%
District contribution rate	6.00%
Years required for vesting	10
Service retirement eligibility (expressed as age/years of service)	60/10, any/20, rule of 80
Updated service credit	100% repeating, transfers

Employees Covered

As of the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	1
Active employees	28

CONTRIBUTIONS

Under the state law governing TCDRS, the contribution rate for each District is determined annually by the actuary, using the Entry Age actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees of the District were required to contribute 4% of their annual salary during the year, and the District was required to contribute at the actuarially determined rate of 6%. The District's contributions to TCDRS for the year ended September 30, 2016 were \$45,337, which equaled the required contribution.

Net Pension Liability

The District's net pension liability of \$74,528 for TCDRS at September 30, 2016 was measured as of December 31, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Pension Actuarial Assumptions

Valuation Date	12/31/2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return (8.00% rate of return plus 0.10% adjustment gross of admin expenses)	8.10%
Inflation	3.00%
Projected Salary Increases	4.90%
Mortality rates	RP-2000 mortality tables

Discount Rate

The discount rate used to measure the total TCDRS pension liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the rates specified in the funding policy. Based on that assumption, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The discount rate for calculating the total pension liability is equal to the long-term expected rate of return on pension plan investments applied to all periods of projected benefit payments to determine the total pension plan liability.

The long-term expected rate of return on the TCDRS pension plan investments was determined to be 8.10% using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return</u>
U. S. Equities	14.50%	5.45%
Private Equity	14.00%	8.45%
Global Equities	1.50%	5.75%
International Equities-Developed	10.00%	5.45%
International Equities-Emerging	8.00%	6.45%
Investment-Grade Bonds	3.00%	1.00%
High-Yield Bonds	3.00%	5.10%
Opportunistic Credit	2.00%	5.09%
Direct Lending	5.00%	6.40%
Distressed Debt	3.00%	8.10%
REIT Equities	3.00%	4.00%
Master Limited Partnerships	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS financial report.

Sensitivity of the Net Pension Liability to Changes in Discounts Rate

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease <u>(7.10%)</u>	Discount Rate <u>(8.10%)</u>	1% Increase <u>(9.10%)</u>
District's net pension liability	\$ 135,496	\$ 74,528	\$ 27,579

<u>Changes in Net Pension Liability</u>	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability/ (Asset) (a)-(b)</u>
Balance at 12/31/14	\$ 198,876	\$ 84,490	\$ 114,385
Changes for the year:			
Service cost	72,093		72,093
Interest on total pension liability	19,317		19,317
Effect of plan changes	7,665		7,665
Effect of economic/demographic gains or losses	(47,049)		(47,049)
Effect of assumption changes or inputs	1,015		1,015
Refunds of contributions	-	-	-
Benefit payments	-	-	-
Administrative expense		(98)	98
Member contributions		46,751	(46,751)
Net investment income		(723)	723
Employer contributions		46,980	(46,980)
Other	-	(12)	12
Balance at 12/31/14	<u>\$ 251,917</u>	<u>\$ 177,389</u>	<u>\$ 74,528</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the District recognized pension expense of \$45,337. At September 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expencted and actual experience	\$ 43,430	\$ 47,365
Changes in actuarial assumptions	\$ -	\$ 937
Differences between projected and actual investment earnings	\$ -	\$ 10,670
Contributions subsequent to the measurement date	N/A	\$ 53,784

\$53,784 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the District year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred outflows of resources related to pensions will be recognized as pension expense as follows:

For the year ended December 31:

2015	\$ 3,563
2016	\$ 3,563
2017	\$ 3,563
2018	\$ 3,041
2019	\$ 765
Thereafter	\$ 1,048

NOTE 13 - Capital Assets – Other

The District placed a new fire engine in service February, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

HAYS COUNTY EMERGENCY SERVICES DISTRICT #5
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2016*
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

	<u>2015</u>	<u>2016</u>
Total pension liability		
Service cost	\$ 50,452	\$ 72,093
Interest on total liability	7,927	19,317
Changes of benefit terms	22,352	7,665
Difference between expected and actual experience of the total pension net liability	55,977	(47,049)
Changes of assumptions	-	1,015
Benefit payments, including refunds of employee contributions	<u>-</u>	<u>-</u>
Net change in total pension liability	136,708	53,041
Total pension liability - beginning	<u>62,167</u>	<u>198,876</u>
Total pension liability - ending (a)	<u>\$ 198,876</u>	<u>\$ 251,917</u>
Plan fiduciary net position		
Contributions - employer	28,781	46,980
Contributions - employee	38,948	46,751
Net investment income	1,371	(723)
Benefit payments, including refunds of employee contributions	-	-
Administrative expenses	(40)	(98)
Other	<u>(3)</u>	<u>(12)</u>
Net change in plan fiduciary net position	69,058	92,898
Plan fiduciary net position - beginning	<u>15,433</u>	<u>84,490</u>
Plan fiduciary net position - ending (b)	<u>84,490</u>	<u>177,388</u>
Net pension liability (a) - (b)	<u>\$ 114,385</u>	<u>\$ 74,528</u>
Plan fiduciary net position as a percentage of the total net pension liability	42.48%	70.42%
Covered employee payroll	\$ 973,712	\$ 1,168,774
Net pension liability as percentage of covered-employee payroll	11.75%	6.38%

NOTE:

*The District implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available. The beginning Net Pension Liability was determined using rollback procedures allowed for initial year of implementation. Fiscal Year 2016 Valuation Date: 12/31/15.

- See Independent Auditor's Report -

HAYS COUNTY EMERGENCY SERVICES DISTRICT #5
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016*
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 27,751	\$ 46,980
Contributions in relation to the actuarially determined contribution	28,781	46,980
Contribution deficiency (excess)	(1,030)	-
Covered-employee payroll	973,712	1,168,774
Contributions as a percentage of covered-employee payroll	3.00%	4.00%

NOTE:

*The District implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

Valuation Date: December 31, 2015

Hays County Emergency Services District #5
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:				
Ad valorem tax revenues	\$2,412,000	\$ 2,412,000	\$2,490,253	\$ 78,253
Inspection and Training Income	78,000	78,000	137,466	59,466
F1 contract and site lease income	19,800	19,800	45,088	25,288
Other income	-	-	63,116	63,116
Grant Income	90,000	123,000	90,989	(32,011)
Sales and Use Tax Income	115,000	115,000	135,321	20,321
Interest income	-	-	3,160	3,160
Total general revenue	<u>2,714,800</u>	<u>2,747,800</u>	<u>2,965,393</u>	<u>217,593</u>
Expenditures:				
Firefighting and related expenses	338,800	338,800	381,335	(42,535)
Personnel and related expenses	1,890,066	1,890,066	1,920,041	(29,975)
Tax Collection expenses	24,000	24,000	21,942	2,058
Professional Services	42,500	42,500	27,013	15,487
Administrative expenses	46,350	46,350	36,475	9,875
Debt Service	272,759	272,759	351,426	(78,667)
Insurance	18,000	18,000	19,351	(1,351)
Capital Outlay	76,000	76,000	108,229	(32,229)
Total Expenditures:	<u>2,708,475</u>	<u>2,708,475</u>	<u>2,865,812</u>	<u>(157,337)</u>
Revenues (under)/over expenditures	6,325	39,325	99,581	60,256
Other financing sources				
Proceeds from sale of capital assets	-	-	-	-
Net change in fund balance	<u>6,325</u>	<u>39,325</u>	<u>99,581</u>	<u>60,256</u>
Beginning fund balance	<u>748,890</u>	<u>748,890</u>	<u>748,890</u>	<u>-</u>
Ending fund balance	<u>\$ 755,215</u>	<u>\$ 788,215</u>	<u>\$ 848,471</u>	<u>\$ 60,256</u>