

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

abip

CPAs | ADVISORS

CLIENT **FOCUSED.** RELATIONSHIP **DRIVEN.**

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Independent Auditor's Report

Board of Commissioners
Comal County Emergency Services
District No. 3
Canyon Lake, Texas

Report on Financial Statements

We have audited the accompanying financial statements of governmental activities and the general fund of the Comal County Emergency Services District No. 3 (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 of 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 District'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 District'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 and the general fund of the Comal County Emergency Services District No. 3 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 Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and TCDRS pension schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2018 on our consideration of the Comal County Emergency Services District No. 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Comal County Emergency Services District No. 3's internal control over financial reporting and compliance.

ABIP, PC

Certified Public Accountants
San Antonio, Texas
May 16, 2018

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3 MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Comal County Emergency Services District No. 3's (the District) annual financial report presents management's discussion and analysis of the District's financial performance during the year ended December 31, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

A. FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities by \$7,043,306 (net position) for the fiscal year reported. This is an increase of \$1,460,285 in comparison to the prior year December 31, 2016.
- Expenses for the year ended December 31, 2017 were \$5,146,852. Revenues exceeded expenses (including depreciation) by \$1,460,285. Included in expense is \$427,641 in depreciation.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

The District was formed as a political subdivision of the State of Texas in July 2003 when the existing Rural Fire Prevention District #4 (Health and Safety Code 794) was converted by the State of Texas to an emergency services district under Health and Safety Code 775. The District levies an eight (8) cent per \$100 property valuation tax and collects a one (1) percent sales tax for its jurisdiction. 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 the District'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, the General Fund. This fund accounts for property tax revenues and sales tax revenues which are collected monthly on behalf of the District. Comal County collects ad valorem property tax, and the State Comptroller's office collects the sales tax.

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 as well as deferred outflows and inflows of resources. 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 the District's net position, which represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Over time, the increases or decreases in the District's net position are 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. To assess the overall financial health of the District, consideration should be given to additional non-financial factors such as changes in the District's tax base.

FUND FINANCIAL STATEMENTS

Fund financial statements provide a detailed short-term view of the District's operations, focusing on its "major" fund. The District has one fund - a general fund.

Governmental Funds - The accounting for the District's basic services is included in the governmental fund. The measurement focus and basis of accounting used for reporting continues to be the modified accrual basis which measures inflows and outflows of current financial resources and the remaining balances at year-end that are available for spending. Furthermore, under this basis of accounting, changes in net spendable assets are normally recognized only to the extent that they are expected to have a near-term impact, while inflows are recognized only if they are available to liquidate liabilities of the current period. Similarly, future outflows are typically recognized only if they represent a depletion of current financial resources. The District's governmental fund is the General Fund. The differences in the amounts reported between the fund statements and the government-wide statements are explained in the reconciliations provided on pages 7 and 9.

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. The notes to the financial statements are provided starting on page 10.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information beginning on page 25.

C. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District had an unrestricted net position of \$3,606,071 at December 31, 2017. This is a \$941,247 increase over last's year's unrestricted net position of \$2,664,824. The repayment of existing loans along with an increased receipt of property and sales taxes, capital asset changes and associated depreciation of those capital assets accounts for the change in net position.

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

C. FINANACIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Statement of Net Position

A schedule of the District's net position is summarized as follows:

	GOVERNMENTAL ACTIVITIES	
	2017	2016
<u>ASSETS</u>		
Current Assets	\$ 7,264,917	\$ 6,188,996
Capital Assets, Net	<u>5,709,619</u>	<u>5,475,728</u>
 TOTAL ASSETS	 <u>12,974,536</u>	 <u>11,664,724</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	 <u>467,073</u>	 <u>467,654</u>
 <u>LIABILITIES</u>		
Current Liabilities	2,337,290	2,000,512
Non-current Liabilities	<u>2,472,868</u>	<u>2,912,833</u>
TOTAL LIABILITIES	<u>4,810,158</u>	<u>4,913,345</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	 <u>1,588,145</u>	 <u>1,636,012</u>
 <u>NET POSITION</u>		
Net Investment in Capital Assets	3,437,235	2,918,197
Unrestricted Net Position	<u>3,606,071</u>	<u>2,664,824</u>
TOTAL NET POSITION	<u>\$ 7,043,306</u>	<u>\$ 5,583,021</u>

Statement of Activities

The District's total revenues were \$6,607,137 in 2017. In 2017, 43% of the total revenue came from ad valorem property taxes, and 22% of revenue came from sales tax. In addition, 35% came from payments from Emergency Services District No. 2 for Emergency Medical Services (EMS) operations. For more information, see Note 5 - Intergovernmental Revenues of the financial statements

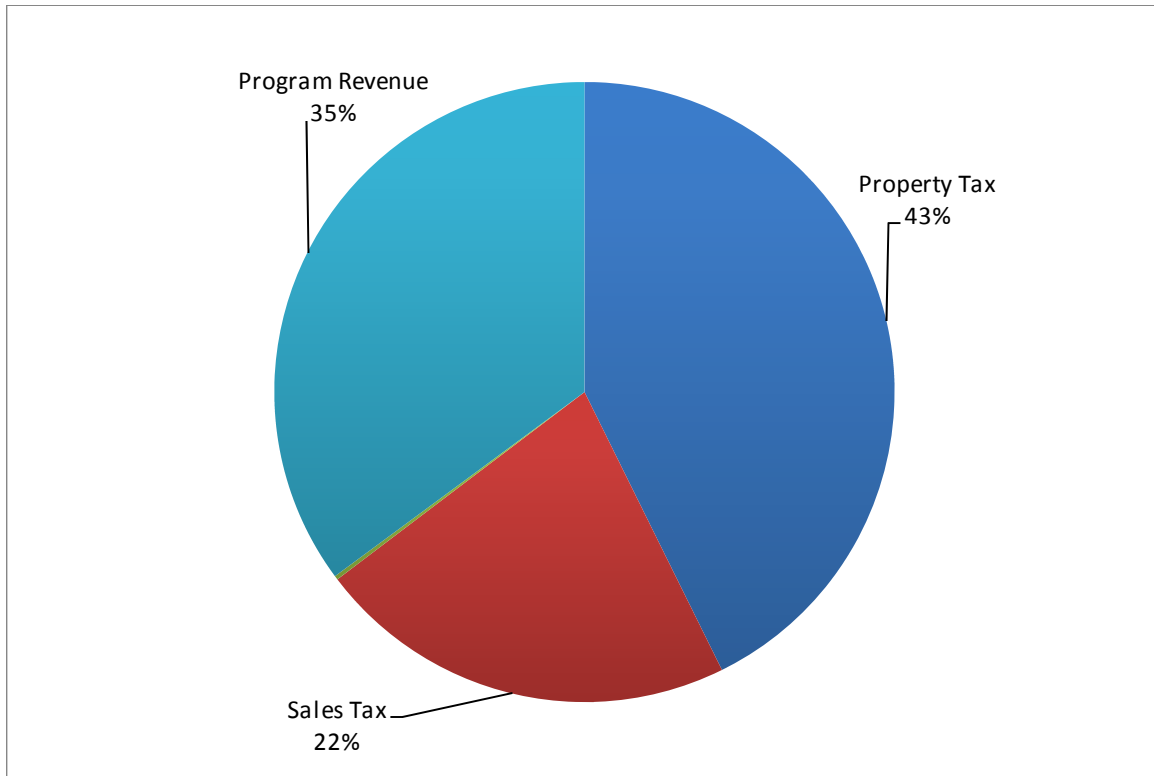
For the year ended December 31, 2017, the total expenses were \$5,146,852 including \$427,641 of depreciation expense and \$593,091 of general government expenses.

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

	GOVERNMENTAL ACTIVITIES	
	2017	2016
<u>REVENUES</u>		
Program Revenues	\$ 2,320,329	\$ 2,186,297
General Revenues	<u>4,286,808</u>	<u>3,893,894</u>
 TOTAL REVENUES	 <u>\$ 6,607,137</u>	 <u>\$ 6,080,191</u>
 <u>EXPENSES</u>		
Public Safety	\$ 4,479,146	\$ 4,026,271
General Government	593,091	481,607
Interest on Debt	<u>74,615</u>	<u>85,566</u>
TOTAL EXPENSES	<u>5,146,852</u>	<u>4,593,444</u>
 INCREASE IN NET POSITION	 <u>\$ 1,460,285</u>	 <u>\$ 1,486,747</u>

C. FINANACIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The following chart is a graphic representation of the District's income for the year ended December 31, 2017.



D. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Net investment in capital assets was \$3,437,235 at December 31, 2017. Capital assets include land, construction in progress, buildings and improvements, vehicles, and firefighting equipment. The significant additions for the year were the purchase of a squad truck, communications equipment, and operational equipment for the firefighters. The District also paid for a new tanker that is being constructed and set for delivery in 2018. The following table shows capital assets for 2017 with comparison for 2016.

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 289,266	\$ 153,327
Construction in Progress	259,681	-
Building and Improvements	4,888,880	4,888,880
Equipment	1,457,487	1,303,674
Vehicles	<u>3,345,928</u>	<u>3,262,944</u>
Total Capital Assets	10,241,242	9,608,825
Accumulated Depreciation	<u>(4,531,623)</u>	<u>(4,133,097)</u>
 CAPITAL ASSETS - NET	 <u>\$ 5,709,619</u>	 <u>\$ 5,475,728</u>

D. CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

At the end of 2017, the District has a note payable with a remaining balance of \$2,272,384 used to refinance two fire stations. The following table shows the District's long-term debt for 2017 with comparison for 2016.

	GOVERNMENTAL ACTIVITIES	
	2017	2016
Notes Payable	\$ 2,272,384	\$ 2,557,531
TOTAL DEBT	\$ 2,272,384	\$ 2,557,531

More detailed information is provided on the District's capital asset and debt activity in note 3 and note 4 to the financial statements beginning on page 17.

E. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The ad valorem property tax rate is \$0.08000 per \$100 property valuation which was not changed from 2017, however will result in increased revenues for the 2018 year due to an increase in certified property valuations and taxes related to new construction. The sales tax revenues are also expected to increase from the 2017 collections.

F. PLANNED CONSTRUCTION OF FIRE STATIONS

In April, the District hired an architectural firm to design and create the construction documents for two new Fire Stations. The District's intent is to begin construction in late 2018.

BUDGETARY HIGHLIGHTS

Actual revenues in 2017 were more than budgeted amounts by \$447,601. Collections from ad valorem taxes were higher than anticipated due to appraisal value increases and taxes related to new construction. In addition, sales tax collections were substantially higher as a result of economic activity in the District's jurisdiction. Expenditures were under budget in 2017 by \$274,600 primarily due to unspent capital expenditures.

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 Treasurer at 830-907-2922, or at Post Office Box 2140, Canyon Lake, Texas 78133.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-Wide Financial Statements – Governmental Activities
- Fund Financial Statements – Governmental Fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017

ASSETS

Cash and Cash Equivalents	\$ 3,803,256
Investments	800,000
Cash with Fiscal Agent - Tax Assessor Collector	1,251,078
Receivables - Property Taxes	
Current Taxes Receivable	1,333,329
Delinquent Taxes Receivable	75,936
Other Receivables	1,318
Capital Assets:	
Land	289,266
Construction in progress	259,681
Buildings and Improvements	3,746,236
Vehicles and Equipment	1,414,436
TOTAL ASSETS	<u>12,974,536</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources - TCDRS	<u>467,073</u>
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LIABILITIES

Accounts Payable	54,406
Accrued Expenses	217,607
Compensated Absences	83,105
Unearned Revenue - Property Taxes	1,687,779
Note Payable - Due in One Year	294,393
Non-current Liabilities	
Note Payable - Due in More Than One Year	1,977,991
Net Pension Liability	494,877
TOTAL LIABILITIES	<u>4,810,158</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources - TCDRS	254,816
Current Property Taxes Levied for Subsequent Period	<u>1,333,329</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,588,145</u>

NET POSITION

Net Investment in Capital Assets	3,437,235
Unrestricted	<u>3,606,071</u>
TOTAL NET POSITION	<u>\$ 7,043,306</u>

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

EXPENSES

Public Safety	\$ 4,479,146
General Government	593,091
Interest on Debt	74,615
Total Expenses	<u>5,146,852</u>

PROGRAM REVENUES

Intergovernmental Payments	2,177,636
Charges for Services	119,994
Operating Contributions	22,699
Total Program Revenues	<u>2,320,329</u>
Net Expense	<u>(2,826,523)</u>

GENERAL REVENUES

Property Tax	2,820,674
Sales Tax	1,452,686
Interest Income	13,448
Total General Revenues	<u>4,286,808</u>

Change in Net Position	1,460,285
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<u>NET POSITION - JANUARY 1, 2017</u>	<u>5,625,351</u>
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Restatement of Net Position	(42,330)
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<u>NET POSITION - AS RESTATED - JANUARY 1, 2017</u>	<u>5,583,021</u>
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NET POSITION - DECEMBER 31, 2017	<u>\$ 7,043,306</u>
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COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
BALANCE SHEET - GOVERNMENTAL FUND
DECEMBER 31, 2017

ASSETS

Cash and Cash Equivalents	\$ 3,803,256
Investments	800,000
Cash with Fiscal Agent - Tax Assessor Collector	1,251,078
Receivables - Property Taxes	
Current Taxes Receivable	1,333,329
Delinquent Taxes Receivable	75,936
Other receivables	<u>1,318</u>
TOTAL ASSETS	<u>\$ 7,264,917</u>

LIABILITIES

Accounts Payable	\$ 54,406
Accrued Expenses	153,215
Unearned Revenue - Property Taxes	<u>1,687,779</u>
TOTAL LIABILITIES	<u>1,895,400</u>

DEFERRED INFLOWS OF RESOURCES

Current Property Taxes Levied for Subsequent Period	1,333,329
Delinquent Property Taxes	<u>75,936</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,409,265</u>

FUND BALANCE

Unassigned	<u>3,960,252</u>
TOTAL FUND BALANCE	<u>3,960,252</u>

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 7,264,917</u>
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COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017

<u>TOTAL FUND BALANCE - GOVERNMENTAL FUND</u>		\$ 3,960,252
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not spendable current financial resources and, therefore, are not reported in the balance sheet of governmental funds.		5,709,619
Delinquent property taxes deferred in the funds are recognized as revenue in the governmental activities.		75,936
Interest expense accrued on long-term debt is not reported in the funds.		(64,392)
Accrued vacation leave payable is not due and payable in the current period and, therefore, is not reported in the funds.		(83,105)
Recognition of the District's net pension liability required by GASB Statement No. 68 and the changes in deferred outflows of resources related to the TCDRS liability is not reported in the funds:		
Net Pension Liability	\$ (494,877)	
Deferred Inflows of Resources - TCDRS	(254,816)	
Deferred Outflows of Resources - TCDRS	<u>467,073</u>	(282,620)
Payables for loans which are not due in the current period are not reported in the funds.		<u>(2,272,384)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 7,043,306</u>

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>REVENUES</u>	
Property Tax Revenue	\$ 2,818,602
Sales Tax Revenue	1,452,686
Charges for Services	119,994
Intergovernmental Payments	2,177,636
Operating Contributions	22,699
Interest	13,448
Total Revenues	<u>6,605,065</u>
<u>EXPENDITURES</u>	
Public Safety	4,114,556
General Government	598,713
Capital Outlay	661,532
Debt Service:	
Principal	285,147
Interest	82,922
Total Expenditures	<u>5,742,870</u>
Excess of Revenues Over Expenditures	862,195
<u>FUND BALANCE - JANUARY 1, 2017</u>	<u>3,012,642</u>
Restatement of Fund Balance	<u>85,415</u>
<u>FUND BALANCE - AS RESTATED - JANUARY 1, 2017</u>	<u>3,098,057</u>
FUND BALANCE - DECEMBER 31, 2017	<u>\$ 3,960,252</u>

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
RECONCILIATION OF CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES
AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>NET CHANGE IN FUND BALANCE</u>	\$ 862,195
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures (\$661,532). However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$427,641). This is the amount by which capital outlays exceeded depreciation expense in the period.	233,891
Delinquent property tax revenues are deferred in the funds. This is the change in these amounts this year.	2,072
Accrued interest payable is not an expense in the funds. This is the change in these amounts this year.	8,307
Accrued vacation leave payable is not an expense in the funds. This is the change in this amount this year.	(16,495)
The change in net pension liability and deferred outflows related to the District's net pension liability is not expensed in the funds. This is the change in this amount this year.	85,168
Payments and borrowings on long-term debt is not reported as an expenditure on the statement of activities.	<u>285,147</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,460,285</u>

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Comal County Emergency Services District No. 3 (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.

A. Reporting Entity

The five-member Board of Commissioners 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. The District receives funding from local and state government sources and must comply with the requirements of those funding entities.

B. Basis of Presentation, Basis of Accounting

1. 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 taxes and intergovernmental payments.

The statement of activities presents a single function, emergency services. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) intergovernmental payments, fees, fines and charges paid for goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including property tax, sales tax, unrestricted contributions, and interest income are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's major governmental fund:

General Fund - This is the District's operating fund. It accounts for all financial resources of the District.

2. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide statements 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.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

2. Measurement Focus, Basis of Accounting (Continued)

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.

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. Revenues from local sources consist primarily of property taxes and sales taxes. Property tax for the current year's levy and sales tax revenue is recognized when received. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's practice to use restricted resources first, then unrestricted resources.

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 three (3) months or less.

4. Investments

Investments for the District are stated at fair value. The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

4. Investments (Continued)

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

5. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Although the District's 2017 ad valorem tax is levied on October 1, 2017, 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 for the District's operations. The collections on the October 1, 2017 levy are considered unearned until the subsequent calendar year. 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 NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

6. Capital Assets

Capital assets are shown at original cost. Donated assets are valued at their fair market value on the date donated. Depreciation is calculated using the straight-line method and is based on estimated useful lives of 5 to 40 years.

7. 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.

8. 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.

9. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available resources is reported as an expenditure and fund liability of the governmental fund that will pay for it. Vested or accumulated vacation leave that is not expected to be liquidated with expendable available financial resources are reported in the government-wide statements. Accumulated vacation pay at December 31, 2017 of \$83,105 has been recorded in the statement of net position.

10. Fund Balance

The District follows Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. The statement provides guidance for fund balance categories and classifications and governmental fund type definitions. GASB 54 changed the way we look at cash balances, specifically reporting what cash balances, by major governmental fund type, are or are not available for public purposes. Five categories of cash balances were created and defined by GASB 54.

These five categories are as follows:

- Non-spendable - These funds are not available for expenditures based on legal or contractual requirements. An example might be inventories and prepaid expenditures.
- Restricted - These funds are governed by externally enforceable restrictions.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

10. Fund Balance (Continued)

- Committed - Fund balances in this category are limited by the government's highest level of decision making (in this case the Board). Any changes of this designation must be done in the same manner that it was implemented. For example, if funds are committed by resolution, the commitment could only be released with another resolution.
- Assigned - For funds to be assigned, there must be an intended use which can be established by the Board or an official delegated by the Board, such as an administrator or finance director. For example, during the budget process, the Board may decide to use some existing fund balance to support activities in the upcoming year.
- Unassigned - This classification is the default for all funds that do not fit into the other categories.

Restricted amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year.

NOTE 2: 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 approved pledged securities for safekeeping and trust with the District's agent bank. 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.

A. 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 \$4,603,256 and the bank balance was \$5,369,227.

B. Deposits and Investment Risk

The GASB issued Statement No. 40, "Deposits and Investment Risk Disclosures". The GASB 40 disclosures below address common areas of investment risk.

1. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

B. Deposits and Investment Risk (Continued)

1. Custodial Credit Risk (Continued)

the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year-end and per District policy all funds were in the District's name and collateralized with securities that maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service. The District was not exposed to custodial credit risk.

2. 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.

3. 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.

4. Credit Risk

The Certificates of Deposit are not rated. The District's policy to manage credit risk is to invest in U. S. Treasury or agency instruments, public funds investment pools, certificates of deposits, and money market accounts. 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 by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

B. Deposits and Investment Risk (Continued)

4. Credit Risk (Continued)

The Public Funds Investment Act (the Act) requires an annual audit of investment practices. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies. 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.

5. Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Certificates of deposit assets are recorded at amortized cost as fair value of these instruments are not recognized until maturity. A breakdown of the Districts cash, cash equivalents, and investments at December 31, 2017 is shown below:

	<u>CARRYING AMOUNT</u>	<u>LEVEL 1</u>	<u>AMORTIZED COST</u>	<u>DAYS TO MATURITY</u>
<u>Included in Cash and Cash Equivalents</u>				
Money Market Account	\$ 1,432,797	\$ 1,432,797	\$ -	n/a
Checking Accounts	2,070,459	2,070,459	-	n/a
CD Security State Bank	100,000	-	100,000	19
CD Security State Bank	100,000	-	100,000	40
CD Security State Bank	100,000	-	100,000	80
Total Cash and Cash Equivalents	<u>\$ 3,803,256</u>	<u>\$ 3,503,256</u>	<u>\$ 300,000</u>	
<u>Included in Investments</u>				
CD Security State Bank	\$ 100,000	\$ -	\$ 100,000	113
CD Security State Bank	100,000	-	100,000	143
CD Security State Bank	100,000	-	100,000	174
CD Security State Bank	100,000	-	100,000	183
CD Security State Bank	100,000	-	100,000	232
CD Security State Bank	100,000	-	100,000	272
CD Security State Bank	100,000	-	100,000	285
CD Security State Bank	100,000	-	100,000	321
Total Investments	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ 800,000</u>	
TOTAL CASH AND INVESTMENTS	<u>\$ 4,603,256</u>	<u>\$ 3,503,256</u>	<u>\$ 1,100,000</u>	

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 3: CAPITAL ASSETS

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

	<u>BEGINNING BALANCE</u>	<u>RECLASS AND ADDITIONS</u>	<u>RECLASS AND DISPOSALS</u>	<u>ENDING BALANCE</u>
<u>Capital Assets, Not Being Depreciated</u>				
Land	\$ 153,327	\$ 135,939	\$ -	\$ 289,266
Construction in Progress	<u>-</u>	<u>259,681</u>	<u>-</u>	<u>259,681</u>
Total Capital Assets, not being Depreciated	<u>153,327</u>	<u>395,620</u>	<u>-</u>	<u>548,947</u>
<u>Capital Assets, Being Depreciated</u>				
Buildings and Improvements	4,888,880	-	-	4,888,880
Equipment	1,303,674	153,813	-	1,457,487
Vehicles	<u>3,262,944</u>	<u>112,099</u>	<u>(29,115)</u>	<u>3,345,928</u>
Total Capital Assets, Being Depreciated	<u>9,455,498</u>	<u>265,912</u>	<u>(29,115)</u>	<u>9,692,295</u>
<u>Less: Accumulated Depreciation</u>				
Buildings and Improvements	(1,002,317)	(140,327)		(1,142,644)
Equipment	(924,568)	(94,588)		(1,019,156)
Vehicles	<u>(2,206,212)</u>	<u>(192,726)</u>	<u>29,115</u>	<u>(2,369,823)</u>
Total Accumulated Depreciation	<u>(4,133,097)</u>	<u>(427,641)</u>	<u>29,115</u>	<u>(4,531,623)</u>
Total Capital Assets, Being Depreciated - Net	<u>5,322,401</u>	<u>(161,729)</u>	<u>-</u>	<u>5,160,672</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 5,475,728</u>	<u>\$ 233,891</u>	<u>\$ -</u>	<u>\$ 5,709,619</u>

Depreciation was charged to the function of public safety for \$423,229 and \$4,412 was charged to general government.

NOTE 4: LONG-TERM DEBT OBLIGATIONS

In 2014, the District secured a consolidated loan for two (2) existing stations at the lower interest rate of 3.242% compared to the previous two loans being 4.88% and 5.18% and decreased the term to only 10 years remaining. In 2016, the District paid \$285,147 in principal payments and \$82,922 in interest. The notes are secured with future tax revenues.

Changes in long-term obligations for the year ended December 31, 2017, are as follows:

	<u>ORIGINAL AMOUNT</u>	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>ENDING BALANCE</u>	<u>AMOUNT DUE WITHIN ONE YEAR</u>
Loans						
Government Capital Corp.	<u>\$ 3,184,014</u>	<u>\$ 2,557,531</u>	<u>\$ -</u>	<u>\$ (285,147)</u>	<u>\$ 2,272,384</u>	<u>\$ 294,393</u>

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 4: LONG-TERM DEBT OBLIGATIONS (CONTINUED)

The District's loan commitment, with an interest rate of 3.242%, is as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	\$ 294,393	\$ 73,677	\$ 368,070
2019	303,938	64,132	368,070
2020	313,792	54,278	368,070
2021	323,966	44,104	368,070
2022	334,470	33,600	368,070
2023-2026	<u>701,825</u>	<u>34,314</u>	<u>736,139</u>
	<u>\$ 2,272,384</u>	<u>\$ 304,105</u>	<u>\$ 2,576,489</u>

NOTE 5: INTERGOVERNMENTAL REVENUES

The District contracts with Comal County Emergency Services District No. 2 through an Interlocal Agreement to provide Emergency Medical Services Operations to the Canyon Lake community. This agreement went into effect January 1, 2015 and will expire on December 31, 2019 unless modified and renewed by both Districts. Payments under this agreement were \$2,177,636 for fiscal year 2017.

NOTE 6: PENSION PLAN

A. Plan Description

Beginning in June 2009, the District began participation in the statewide Texas County and District Retirement System (TCDRS).

The District's pension plan is a non-traditional, joint contributory, defined benefit plan. The District, as an employer, provides retirement, disability, and death benefits for all its full-time employees through a nontraditional defined-benefit pension plan in the statewide Texas County and District Retirement System. The plan is a statewide, multi-employer, public employee retirement system consisting of over 600 employers.

The plan provisions for the District are adopted by the District Commissioners within the options available in the Texas state statutes governing TCDRS. Members can retire with 20 years of service regardless of age; or when the sum of their ages and years of service equals 80 or more. Members are vested after 10 years of service but their accumulated deposits and allocated interest must remain in the plan to receive any employer financed benefit. Members who withdraw their personal account balance in a lump sum prior to retirement are not entitled to any amounts contributed by the District.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the defined benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries currently Receiving Benefits	1
Inactive Employees entitled to but Not Yet Receiving Benefits	26
Active Employees	<u>43</u>
Total	<u>70</u>

B. Contributions

The contributions rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employees gross earnings, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available to the TCDRS Act.

The District has elected the variable rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer, based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 9.58% for the year ending December 31, 2017 of annual covered payroll. Plan members are required to contribute 7% of their annual covered salary.

For the employer's accounting year ending December 31, 2017, the annual pension cost for the TCDRS Plan for its employees was \$272,372 and the actual contributions were \$272,372.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: PENSION PLAN (CONTINUED)

C. Net Pension Liability

The annual required contributions were actuarially determined as a percent of covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2014 and December 31, 2015, the basis for determining the contribution rates for calendar years 2016 and 2017, respectively.

The District's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The December 31, 2016 actuarial valuation is the most recent valuation.

Actuarial Valuation Information:

The Total Pension Liability in the December 31, 2016 actuarial valuations was determined using the following actuarial assumptions:

Actuarial Valuation Date	12/31/2016
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll, Closed
Amortization Period	11.2 Years
Asset Valuation Method	5 Year Smoothed Market
Actuarial Assumptions:	
Investment Return*	8.0%
Projected Salary Increase*	4.9
Inflation	3.0
Cost-of-Living Adjustments	0.0

*Includes inflation, net investment expenses.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee. Mortality rates for active members were based on gender-distinct RP2000 Active Employee Mortality Table, with a two year set-forward for males, and a four-year set-back for females, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that. Mortality rates for retirees, beneficiaries, and non-active members were based on the gender-distinct RP2000 Combined Mortality Table, with a one year set-forward for males and no age adjustment for females, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: PENSION PLAN (CONTINUED)

C. Net Pension Liability (Continued)

For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with no age adjustment for males, and a two year set-forward for females, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.

The long-term expected rate of return on pension plan investments is 8.1%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on TCDRS assets is calculated by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS's investment consultants and are based on January 2016 information for a 7-10 year time horizon.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return (Expected Minus Inflation)</u>
U.S. Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities - Developed	10.00%	4.70%
International Equities - Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLPs)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	<u>20.00%</u>	3.85%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: PENSION PLAN (CONTINUED)

C. Net Pension Liability (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2015	\$ 2,634,962	\$ 1,994,513	\$ 640,449
Changes for the year:			
Service Cost	337,391	-	337,391
Interest on Total Pension Liability	225,246	-	225,246
Effect of Plan Changes	-	-	-
Effect of Economic/Demographic Gains or Losses	(91,675)	-	(91,675)
Effect of Assumptions Changes or Inputs	-	-	-
Refund of Contributions	(39,587)	(39,587)	-
Benefit Payments	(308)	(308)	-
Administrative Expense	-	(1,631)	1,631
Member Contributions	-	181,143	(181,143)
Net Investment Income	-	150,009	(150,009)
Employer Contributions	-	247,904	(247,904)
Other	-	39,109	(39,109)
Net Changes	<u>431,067</u>	<u>576,639</u>	<u>(145,572)</u>
Balance at December 31, 2016	<u>\$ 3,066,029</u>	<u>\$ 2,571,152</u>	<u>\$ 494,877</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District, calculated using the discount rate of 8.1%, 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 (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Total Pension Liability	\$ 3,770,216	\$ 3,066,029	\$ 2,517,482
Fiduciary Net Position	<u>2,571,152</u>	<u>2,571,152</u>	<u>2,571,152</u>
District's Net Pension Liability (Asset)	<u>\$ 1,199,064</u>	<u>\$ 494,877</u>	<u>\$ (53,670)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www.tcdrs.org.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: PENSION PLAN (CONTINUED)

D. Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2017, the District recognized pension expense of \$187,204.

At December 31, 2017, the District reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference Between Expected and Actual Economic Experience	\$ 53,286	\$ (254,816)
Changes in Actuarial Assumptions	5,740	-
Difference Between Projected and Actual Investment Earnings	135,675	-
Contributions Subsequent to the Measurement Date	<u>272,372</u>	<u>-</u>
Total	<u>\$ 467,073</u>	<u>\$ (254,816)</u>

The District reported \$272,372 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability for the year ending December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2017	\$ 21,685
2018	21,685
2019	16,041
2020	(17,825)
2021	(23,522)
Thereafter	<u>(78,179)</u>
Total	<u>\$ (60,115)</u>

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During 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. There were no significant reductions 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 fiscal years.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 8: RESTATEMENT OF NET POSITION AND FUND BALANCE

As of December 31, 2016, certain expenditures were not reported in the financial statements for the year then ended. Additionally, accrued interest payable was reported in the governmental fund balance sheet that should have been eliminated. The table below summarizes the restatements of net position and fund balance as of January 1, 2017.

	<u>Governmental Activities</u>	<u>Governmental Fund</u>
Beginning Net Position, Fund Balance - January 1, 2017	\$ 5,625,351	\$ 3,012,642
Restatements to Net Position, Fund Balance		
Adjustment to Correct Expenses, Expenditures	(42,330)	(42,330)
Adjustment to Correct Accrued Interest Payable	<u>-</u>	<u>127,745</u>
Total Restatement	<u>(42,330)</u>	<u>85,415</u>
Beginning Net Position, Fund Balance, As Restated - January 1, 2017	<u>\$ 5,583,021</u>	<u>\$ 3,098,057</u>

NOTE 9: EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 16, 2018, the date which the financial statements were available to be issued. In January 2018, the Board of Commissioner's authorized the purchase of a Tanker in the amount of \$413,868. There were no other subsequent events for disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL ON A GAAP BASIS - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>BUDGETED AMOUNTS ORIGINAL</u>	<u>BUDGETED AMOUNTS FINAL</u>	<u>GAAP BASIS ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<u>REVENUES</u>				
Property Tax Revenue	\$ 2,660,957	\$ 2,660,957	\$ 2,818,602	\$ 157,645
Sales Tax Revenue	1,250,000	1,250,000	1,452,686	202,686
Charges for Services	44,000	44,000	119,994	75,994
Intergovernmental	2,016,258	2,144,007	2,177,636	33,629
Operating Contributions	42,500	42,500	22,699	(19,801)
Other Income	12,500	12,500	-	(12,500)
Interest Earnings	3,500	3,500	13,448	9,948
Total Revenues	<u>6,029,715</u>	<u>6,157,464</u>	<u>6,605,065</u>	<u>447,601</u>
<u>EXPENDITURES</u>				
Public Safety	4,001,012	3,994,305	4,114,556	(120,251)
General Government	587,360	586,445	598,713	(12,268)
Capital Outlay	807,650	1,068,650	661,532	407,118
Debt Service	368,070	368,070	368,069	1
Total Expenditures	<u>5,764,092</u>	<u>6,017,470</u>	<u>5,742,870</u>	<u>274,600</u>
Excess Of Revenue Over Expenditures	265,623	139,994	862,195	722,201
<u>FUND BALANCES - BEGINNING OF YEAR</u>	<u>3,012,642</u>	<u>3,012,642</u>	<u>3,012,642</u>	<u>-</u>
Restatement of Fund Balance	-	-	85,415	85,415
<u>FUND BALANCES - BEGINNING OF YEAR - AS RESTATED</u>	<u>3,012,642</u>	<u>3,012,642</u>	<u>3,098,057</u>	<u>85,415</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,278,265</u>	<u>\$ 3,152,636</u>	<u>\$ 3,960,252</u>	<u>\$ 807,616</u>

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS
*LAST 10 YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service Cost	\$ 337,391	\$ 320,138	\$ 290,129
Interest on the Total Pension Liability	225,246	205,693	161,604
Effect of Plan Changes	-	(104,237)	110,351
Effect of Assumption Changes	-	7,175	-
Effect of Economic/Demographic (Gains) or Losses	(91,675)	(216,659)	76,123
Benefit Payments/Refunds of Contributions	<u>(39,895)</u>	<u>(14,132)</u>	<u>-</u>
Net Change in Total Pension Liability	431,067	197,978	638,207
Total Pension Liability - Beginning	<u>2,634,964</u>	<u>2,436,986</u>	<u>1,798,779</u>
Total Pension Liability - Ending (a)	<u>\$ 3,066,031</u>	<u>\$ 2,634,964</u>	<u>\$ 2,436,986</u>
Fiduciary Net Position			
Employer Contributions	\$ 247,904	\$ 242,403	\$ 197,676
Member Contributions	181,143	172,968	165,320
Investment Income, Net of Investment Expenses	150,009	(21,239)	82,165
Benefit Payments/Refunds of Contributions	(39,895)	(14,132)	-
Administrative Expense	(1,631)	(1,320)	(1,085)
Other	<u>39,108</u>	<u>(133)</u>	<u>(78)</u>
Net Change in Plan Fiduciary Net Position	<u>\$ 576,638</u>	<u>\$ 378,547</u>	<u>\$ 443,998</u>
Plan Fiduciary Net Position - Beginning	<u>1,994,516</u>	<u>1,615,969</u>	<u>1,171,971</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,571,154</u>	<u>\$ 1,994,516</u>	<u>\$ 1,615,969</u>
Net Pension Liability (a) - (b)	<u>\$ 494,877</u>	<u>\$ 640,448</u>	<u>\$ 821,017</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	83.86%	75.69%	66.31%
Covered Employee Payroll	\$ 2,587,750	\$ 2,470,971	\$ 2,361,717
Net Pension Liability as a Percentage of Total Covered Employee Payroll	19.12%	25.92%	34.76%

*GASB Statement No. 68 requires 10 years of data to be provided in this schedule. This is the third year of implementation of GASB Statement No. 68. The District will develop and present the schedule prospectively.

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST 10 FISCAL YEARS

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2008	\$ -	\$ -	\$ -	\$ -	0.00%
2009	34,710	34,710	-	977,738	3.55%
2010	76,316	76,316	-	2,149,740	3.55%
2011	73,502	73,502	-	2,296,935	3.20%
2012	102,286	114,927	(12,641)	2,298,559	5.00%
2013	174,931	174,931	-	2,313,901	7.56%
2014	197,676	197,676	-	2,361,717	8.37%
2015	242,403	242,403	-	2,470,971	9.81%
2016	247,904	247,904	-	2,527,051	9.81%
2017	272,372	272,372	-	2,843,135	9.58%

COMAL COUNTY EMERGENCY SERVICES DISTRICT NO. 3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

NOTE 1: BUDGETARY INFORMATION

Budgets for the District are prepared in conformity with general accepted accounting principles (GAAP). The District legally adopts budgets for the General Fund. All annual appropriations lapse at fiscal year end. All amendments to the District's budget requires Board of Commissioner approval prior to incurring such expenditure. At a minimum, the District is required to present the original and final budgets for the revenue and expenditures compared to actual revenues and expenditures for the General Fund.

NOTE 2: SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	11.2 Years
Asset Valuation Method	5 Year Smoothed Market
Inflation	3.00%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.00%
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scall AA had been used. The base table is the RP-2000 table projected with Scall AA to 2014.
Changes in Plan Provisions Relected in the Schedule of Contributions*	2015: No changes in plan provisions. 2016: No changes in plan provisions.

*Only changes effective 2015 and later are shown in the Notes to Schedule.

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Comal County Emergency Services District No. 3
Canyon Lake, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the governmental activities and the major fund of the Comal County Emergency Services District No. 3 (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, and have issued our report thereon dated May 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ABIP, PC

Certified Public Accountants
San Antonio, Texas

May 16, 2018