

Caldwell Hays County
Emergency Services District #1
Annual Financial Report
For the Year Ending
September 30, 2012 and 2011

JANSEN AND GREGORCZYK

Telephone
(512) 268-2749

Certified Public Accountants
P.O. Box 1778
Kyle, TX 78640

Fax
(512) 268-5057

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Niederwald, TX 78640

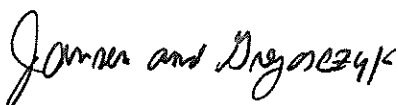
We have audited the accompanying financial statements of the governmental activities of Caldwell Hays Emergency Services District #1 (the District), as of and for the years ended September 30, 2012 and 2011, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of Caldwell Hays Emergency Services District#1's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Caldwell Hays Emergency Services District #1, as of September 30, 2012 and 2011, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 14 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



Kyle, TX
April 23, 2014

CALDWELL HAYS EMERGENCY SERVICES DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012 and 2011

The following is a narrative overview and analysis of the financial activities of Caldwell Hays Emergency Services District No. 1 ("the District") for the fiscal year ended September 30, 2012. This discussion and analysis are intended to serve as an introduction to the District's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) notes to the financial statements, and (4) budget comparison.

FINANCIAL HIGHLIGHTS

- The District's ad valorem tax rate remained at 10.0¢ per \$100 of assessed valuation for the fiscal year ended September 30, 2012. The statutory limit, as established by the State of Texas constitution, is 10¢ per \$100 of assessed valuation.
- During the year, the District's had expenses of \$262,053 compared to total revenues of \$306,275 resulting in net income of (\$18,289) for the year ended September 30, 2012.
- The District's expenses under its contracts with Chisholm Trail Fire Rescue (CTFR) were \$147,000 plus matching grant funds in the amount of \$90,478 in the third year of the contract.
- The District's cash and investments were \$181,890 for the fiscal year.
- Investment in capital assets, net of debt, increased by \$239,611 primarily as a result of the paying down debt through normal annual debt payments during the fiscal year ended September 30, 2012 and the transference of assets from Chisholm Trail Fire Rescue.

Explanation of the Financial Statements

The MD&A is intended to serve as an introduction to the basic financial statements of the District. The basic financial statements are comprised of two components: 1) government-wide financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business reporting on a full accrual basis of accounting.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District has improved or deteriorated.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (example: uncollected property taxes).

Because the District's principal source of revenue is ad valorem taxes, the government-wide financial statements are grouped into one function that is supported by taxes (governmental activities).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and account for resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal or contractual requirements. The District has one fund, the Governmental Fund.

Governmental Fund: The Governmental Fund is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the Governmental Fund financial statements focus on current fiscal year cash inflows and outflows, as well as balances of resources available for spending at the end of the fiscal year. Such information may be useful in evaluating the District's recent financing requirements.

Because the focus of the Governmental Fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the Governmental Fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's recent financing decisions. Both the Governmental Fund balance sheet and the Governmental Fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Fund and government-wide financial statements.

Government-Wide Financial Analysis

Net assets may serve as a useful indicator of the District's financial position. The District's net assets (assets less liabilities) were \$113,425 as of the year ended September 30, 2012. Net assets increased by \$44,222 during the year. Capital assets reflect the large investments in facilities and equipment that are necessary to provide adequate fire suppression services to the community. The remaining balance of net assets of \$192,382 is unrestricted and available to meet the District's ongoing obligations to citizens and creditors. Governmental activities account for all of the changes in net assets at the government-wide reporting level because the District engages in no business-type activities. The tables below summarize the financials of the District at September 30, 2012.

Table 1
Governmental Activities

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 223,277	\$ 197,155
Other Assets	26,264	26,264
Capital Assets, net	666,396	426,785
Total Assets	<u>\$ 915,937</u>	<u>\$ 650,204</u>
Long-term Debt	458,338	529,397
Current Liabilities	57,159	51,604
Total Liabilities	<u>\$ 515,497</u>	<u>\$ 581,001</u>
Net Assets:		
Invested in Capital Assets	208,058	(102,612)
Unreserved	192,382	171,815
Total Net Assets	400,440	69,203
Total Liabilities & Net Assets	<u>\$ 915,937</u>	<u>\$ 650,204</u>

Table 2

Revenues		
Ad Valorem Taxes	\$ 305,623	\$ 291,873
Interest Income	652	850
	<u>306,275</u>	<u>292,723</u>
Expenses		
Operations & Maintenance	152,107	156,598
Operations - Other	-	90,478
Office Supplies & Expenses	260	-
Legal & Accounting	3,325	6,697
Tax Collection Fees	7,134	6,850
Interest Expense	32,741	26,108
Depreciation	128,997	63,420
Total Expenses	<u>324,564</u>	<u>350,151</u>
Increase in Net Assets	<u>\$ (18,289)</u>	<u>\$ (57,428)</u>

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

Financial Analysis of the Governmental Fund

The focus of the District's Governmental Fund is to provide information on near-term inflows and outflows and on resource balances available for spending. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance serves as a useful measure of the District's net resources available for spending at fiscal year-end.

During the fiscal year ending September 30, 2012, the District's only Governmental Fund was the General Fund, and it reported an ending cash balance of \$181,890, a decrease of \$29,328 from September 30, 2011. The total ending balance was unreserved and unencumbered, and it was available for spending at the District's discretion.

Purpose of Organization

The Caldwell Hays County Emergency Services District #1 operates under the provisions of Chapter 775 of the Health and Safety Code. The District was established to arrange for fire and rescue protection services within its boundaries. The district handles all financial matters for the fire departments. The ESD governs four fire stations located in the county. The ESD has no paid and volunteer staff and is funded primarily by the collection of taxes.

General Fund Budgetary Highlights

The Board of Directors did not make any changes to the budget during the year. The analysis of the budget is reflected on the Schedule of Revenues, Expenditures and Changes in Net Assets – Budget vs Actual following the Notes to the Financial Statements.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2012, the District had \$379,381, net of depreciation of \$224,700, invested in capital assets. Of this amount, \$4,200, is invested in buildings, \$586,471 in trucks and equipment and \$13,410 is invested in land.

Debt Administration

As of September 30, 2012, the District had notes/leases payable for the vehicles and fire stations owned.

Long-Term Debt

The district's long-term debt at September 30, 2012, net of the current portion, totaled \$383,450 for loans. The current portion of the long-term debt was \$74,888. Fire stations and fire apparatus are pledged as collateral as shown below:

Long-Term Debt				
As of September 30, 2012				
<u>Collateral</u>	<u>Type</u>	<u>Long-Term Portion</u>	<u>Current Portion</u>	<u>Total</u>
Vehicles	Loans	\$ 357,313	\$ 44,442	\$ 401,755
Bunker Gear	Loan	8,797	14,023	22,820
Land and Improvements	Loan	17,340	16,423	33,763
		<u>\$ 383,450</u>	<u>\$ 74,888</u>	<u>\$ 458,338</u>

Economic Factors and Next Year's Budgets and Rates

The District's elected and appointed officials considered many factors when setting the fiscal year 2012 budget and tax rates. One of those factors is the economy and estimated needs to operate the District in the coming year.

This part of the county continues to grow, which provides some property tax revenue growth to offset inflationary trends in operating costs. As with many local government entities, the growth

provides funding to help offset inflationary trends with existing programs, but it often leaves little funds available for new or enhanced programs or services.

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:

Mr. James Clendennen
Caldwell Hays County ESD #1
8809 Niederwald Strasse
Niederwald, TX 78640

CALDWELL HAYS COUNTY ESD #1
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
AS OF SEPTEMBER 30, 2012 and 2011

	General Fund	Adjustments	2012	2011
ASSETS				
Cash	\$ 181,890	\$ -	\$ 181,890	\$ 152,562
Taxes Receivable	41,387	-	41,387	44,593
Total Current Assets	223,277	-	223,277	197,155
Capital Assets:				
Land	-	53,220	53,220	13,410
Vehicles	-	824,174	824,174	502,680
Buildings	-	226,700	226,700	4,200
Equipment	-	76,291	76,291	64,709
Less Accumulated Depreciation	-	(513,989)	(513,989)	(158,214)
Net Capital Assets	-	666,396	666,396	426,785
Other Assets	26,264	-	26,264	26,264
Total Assets	\$ 249,541	\$ 666,396	\$ 915,937	\$ 650,204
LIABILITIES				
Deferred income	\$ 41,387	\$ (41,387)	\$ -	\$ -
Accounts Payable	36,925	-	36,925	36,750
Accrued Interest Payable	-	20,234	20,234	14,854
Current portion - notes payable	-	74,888	74,888	69,610
Total current liabilities	78,312	53,735	132,047	121,214
Long Term Liabilities				
Note Payable	-	458,338	458,338	529,397
Less: Current portion of note payable	-	(74,888)	(74,888)	(69,610)
Total Long Term Liabilities	-	383,450	383,450	459,787
NET ASSETS/Fund Balance				
Fund Balances:				
Reserved for capital projects				
Unreserved	171,229			
Total fund balance	171,229			
Total Liabilities and Net Assets	\$ 249,541			
Capital assets, net of debt			208,058	(102,612)
Unrestricted			192,382	171,815
Total net assets			\$ 400,440	\$ 69,203

The accompanying notes are an integral part of these financial statement.

CALDWELL HAYS COUNTY ESD #1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS, REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
SEPTEMBER 30, 2012 and 2011

<u>Expenses:</u>	General Fund	Adjustments	2012	2011
CTFR VFD Operation Contract	\$ 147,700		\$ 147,700	\$ 147,000
CTFR - Other Operations	-		-	90,478
Appraisal District	7,134		7,134	6,850
Depreciation Expense	-	128,997	128,997	63,420
Dues and Memberships	-		-	-
Legal and Consulting Fees	3,325		3,325	6,697
Maintenance and Repairs	2,253		2,253	1,883
Supplies - Office	-		-	-
Supplies - Operational	2,154		2,154	7,380
Rent Expense	-		-	-
Miscellaneous Expense	260		260	294
Capital outlay	19,082	(19,082)	-	-
Debt service - principal	71,059	(71,059)	-	-
Debt service - interest	27,361	5,380	32,741	26,108
Public Notices	-		-	41
Total Expenses	\$ 280,328	\$ 44,236	\$ 324,564	\$ 350,151
<u>Revenues Received</u>				
Property Taxes:				
Current	\$ 308,829	\$ (3,206)	\$ 305,623	\$ 291,873
Interest	652	-	652	850
Total Revenue Received	\$ 309,481	\$ (3,206)	\$ 306,275	\$ 292,723
Excess of revenues over expenditures	29,153	(47,442)	(18,289)	(57,428)
Special and Extraordinary Items	-	349,526	349,526	-
Other financing sources:				
Proceeds from debt	-	-	-	-
Change in net assets	29,153	41,030	331,237	(57,428)
Net assets, beginning	142,076		69,203	126,631
Net assets, ending	<u>\$ 171,229</u>		<u>\$ 400,440</u>	<u>\$ 69,203</u>

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

Caldwell / Hays Emergency Services District #1
Notes to the Financial Statements
For The Year Ending September 30, 2012 and 2011

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Caldwell Hays Emergency Services District #1 conform to generally accepted accounting principles in the United States of America applicable to state and local governments.

A. The Reporting Entity

The District was created in August, 2007 as an Emergency Services District under Chapter 775 of the Texas Health & Safety Code to provide services to protect life and health and promote the public safety, welfare, health, and convenience of persons residing and property located within their district. The District contracts with and disburses funds to Chisholm Trail Fire Rescue and monitors their expenditures.

Caldwell Hays ESD #1 is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Additionally, no other entity meets these requirements for inclusion in Caldwell / Hays County ESD #1 financial statements.

B. District-Wide Financial Statements

The Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds, Revenues, Expenditures and Changes in Fund Balances are district-wide financial statements. They report information on all the Caldwell / Hays County Emergency Services District No. 1's nonfiduciary activities. *Governmental activities* include programs supported primarily by taxes. The District has no business type activities.

The Statement of Activities and Governmental Funds, Revenues, Expenditures and Changes in Fund Balances demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses of a given function are those that are clearly identifiable within a specific function. Taxes and other items are reported instead of general revenues.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Expenses 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. Cash equivalents include investments with original maturities of three months or less. Cash equivalents are stated at cost which approximates market value.

E. Compensated Absences

The District does not have any employees.

F. Net Assets

Net assets present the difference between assets and liabilities in the Statement of Net Assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimations and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis. Estimated useful lives are as follows:

Building	20 years
Vehicles	10 years
Equipment	5 years

NOTE 2 - DEPOSITS AND INVESTMENTS:

At September 30, 2012 and 2011, the District had \$181,890 and \$152,562 invested in cash and cash equivalents respectively.

Interest Rate Risk. The District does not have a formal investment policy in place. The District's cash and cash equivalents are currently invested in short-term instruments such as an interest-bearing checking account.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of September 30, 2012 all of the District's deposit balances were covered by federal depository insurance respectively.

NOTE 3 - PROPERTY TAXES

The District has the authority to levy a tax to a maximum of \$.10 per \$100 of value. Property Taxes are levied each October 1 on the assessed valuation of all taxable property in the District. The tax rate for the October 1, 2011 levy was \$.10 per \$100 of value. Taxes are due on receipt of the bill and are delinquent if not paid before February 1 of the year following the levy. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes,

penalties and interest ultimately imposed. Taxes are billed and collected by the Hays County and Caldwell County Tax Assessor-Collector.

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year:

	Balance 9/30/2011	Additions	Retirements	Balance 9/30/12
Capital assets not being depreciated:				
Land	\$ 13,410	\$ 39,810	\$ -	\$ 53,220
Capital assets being depreciated:				
Furniture & Equipment	64,709	11,582	-	76,291
Vehicles	502,680	321,494	-	824,174
Buildings	4,200	222,500	-	226,700
Total assets being depreciated	571,589	555,576	-	1,127,165
Less accumulated depreciation	(158,214)	(228,987)	(126,788)	(513,989)
Total capital assets	<u>\$426,785</u>	<u>\$ 366,399</u>	<u>\$ (126,788)</u>	<u>\$ 666,396</u>

The District acquired all of the capital assets from Chisholm Trail Fire Rescue during the audit year.

NOTE 5 – LONG TERM DEBT

The following is a summary of changes in long-term debt (loans and leases) for the year ended September 30, 2012.

Bank	Description	Amount of		Interest Rate	Balance 9/30/11	Additions	Retirements	Balance 9/30/12
		Original Issue	Maturity Date					
Govt. Capital Corp	Bunker Gear	\$ 64,709	2/15/14	5.850%	\$ 36,084	\$ -	\$ 13,264	\$ 22,820
Govt. Capital Corp	Vehicles	343,500	2/15/19	5.598%	284,816	-	29,195	255,621
Govt. Capital Corp	Bldg Imp	78,000	6/15/14	6.102%	49,317	-	15,554	33,763
Govt. Capital Corp	Pumper	159,180	3/1/21	4.806%	159,180	-	13,046	146,134
		<u>\$ 645,389</u>			<u>\$ 529,397</u>	<u>\$ -</u>	<u>\$ 71,059</u>	<u>\$ 458,338</u>
							Less current maturities	(74,888)
								<u>\$ 383,450</u>

Future Payments - Notes

	<u>Principal</u>	<u>Interest</u>
2013	\$ 74,888	\$ 23,534
2014	72,896	19,527
2015	49,200	15,903
2016	51,768	13,335
2017	54,472	10,630
2018-2021	155,114	15,029
	<u>\$ 458,338</u>	<u>\$ 97,958</u>

NOTE 6 – ADJUSTMENTS TO CONVERT FUND STATEMENTS TO GOVERNMENT-WIDE

Unrestricted fund balance - governmental fund	\$ 171,229
Increase net assets for capital assets not reported in the governmental funds	666,396
Taxes receivables deferred in the fund financial statements and not in the government-wide financial statements	41,387
Accrued interest expense on long-term debt not reported in the fund financial statements	(20,234)
Long-term debt liabilities not reported in the fund financial statements	<u>(458,338)</u>
Net assets - governmental activities	<u>\$ 400,440</u>

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

Net change in fund balance - governmental fund	\$ 29,153
Net increase in tax receivable deferred in the fund financial statements and not in the government-wide financial statements	(3,206)
Depreciation expense not recognized in the fund financial statements	(128,997)
Capital outlay	19,082
Change in debt service accrued interest expense	(5,380)
Long-term debt principal payments recognized as expenditures in the fund financial statements	<u>71,059</u>
Transfer of assets from CTFR	349,526
Change in net assets - governmental activities	<u>\$ 331,237</u>

NOTE 7 – 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. Chisholm Trail Fire Rescue pays the premium for this coverage.

NOTE 7 – OTHER MATTERS

Auditing standards GASB Cod. 2300.107 as well as FASB Statement No. 57 require disclosure by the governmental entity regarding related party transactions. No such instances or transactions were noted in the audit findings.

NOTE 8 – EXTRAORDINARY AND SPECIAL ITEMS

A former officer of the District has been convicted for fraud-related crimes with respect to the District's funds. A portion of a non-depreciable asset recorded on the District's books for the period ended September 30, 2009 is subject to being restated as part of this ongoing legal proceeding. The result of the lawsuit will determine the reasonableness of the collectability of these amounts. As of the date of this report, this is still an open issue.

NOTE 9 – SUBSEQUENT EVENTS

The board has reviewed subsequent events from year end to the date of this report, April 29, 2014 and no material issues were found.

Caldwell Hays County Emergency Services District #1
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2012

	Original/Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad Valorem Tax Revenues	\$ 302,000	\$ 308,829	\$ 6,829
Interest Income	600	652	52
Total Revenues	\$ 302,600	\$ 309,481	\$ 6,881
Expenditures:			
District Contract Expenses	\$ 147,700	\$ 147,700	\$ -
Tax Collection Expenses	2,500	7,134	(4,634)
Professional Services	12,000	3,325	8,675
Insurance	-	-	-
Supplies	4,345	2,154	2,191
Debt Service	98,420	98,420	-
Capital Outlay	55,000	19,082	35,918
Misc. Expense	31,200	2,513	28,687
Total Expenditures	351,165	280,328	70,837
Excess (deficiency) of revenues over expenditures	(48,565)	29,153	77,718
Fund Balances - Beginning	142,076	142,076	-
Fund Balances - Ending	\$ 93,511	\$ 171,229	\$ 77,718

CALDWELL/HAYS COUNTY EMERGENCY SERVICES DISTRICT #1

COMMUNICATION TO THE BOARD

September 30, 2012 and 2011

JANSEN AND GREGORCZYK

Telephone
(512) 268-2749

Certified Public Accountants
P.O. Box 1778
Kyle, TX 78640

Fax
(512) 268-5057

Board of Commissioners
Caldwell Hays Emergency Services District #1

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities of Caldwell Hays Emergency Services District #1 (the District) for the year ended September 30, 2012 and 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 25, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal controls of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. Additionally, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements.

Internal Control

In planning and performing our audit of the financial statements of the District in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District's are described in Note 1 to the financial statements.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effect in whole may be material and have recorded the adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management letter dated April 29, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We noted during our review of the bank statements and invoices that checks and/or deposits are not recorded into the General Ledger in a timely manner. We found checks dated 20-30 days before they were actually recorded in the books as well as deposits that were not recorded at the time they were actually deposited. Checks and/or deposits should not be held and the date these transactions are recorded should be within a short timer period of the time they clear the bank account.

Additionally, we noted several dates on the Board Meeting Minutes were not accurate.

This information is intended solely for the use of the Board of Commissioner's of Caldwell Hays Emergency Services District #1 and is not intended to be and should not be used by anyone other than these specified parties.

Johnson and Gregorczyk

April 23, 2014
Kyle, Texas