

***DISTRICT 7 FIRE AND RESCUE
(A NONPROFIT FIRE DEPARTMENT)***

FINANCIAL STATEMENTS

***FOR THE YEAR ENDED
SEPTEMBER 30, 2014***

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Armstrong, Vaughan & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
District 7 Fire and Rescue
San Antonio, Texas

We have audited the accompanying financial statements of District 7 Fire and Rescue, which comprise the statement of financial position as of September 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of District 7 Fire and Rescue as of September 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.
February 13, 2015

DISTRICT 7 FIRE AND RESCUE
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2014

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	182,525
Accounts Receivable		400
Prepaid Insurance		8,094
<i>Total Current Assets</i>		191,019

Property and Equipment:

Land		369,997
Fire Station No. 1		299,856
Fire Station No. 2		323,262
Fire Station Improvements		23,161
Trucks and Equipment		2,265,731
Less Accumulated Depreciation		(791,574)
<i>Total Property and Equipment</i>		2,490,433

TOTAL ASSETS	\$	2,681,452
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LIABILITIES AND NET ASSETS

LIABILITIES:

Current Liabilities:

Accounts Payable	\$	17,748
Accrued Interest Expense		38,541
Current Maturities of Long-Term Liabilities		131,989
<i>Total Current Liabilities</i>		188,278

Long-Term Liabilities:

Capital Lease Obligation		700,579
Fire Station Loan		374,480
<i>Total Long-Term Liabilities</i>		1,075,059

<i>TOTAL LIABILITIES</i>		1,263,337
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NET ASSETS:

Unrestricted:

Operations		134,730
Investment in Property & Equipment, Net of Related Debt		1,283,385
<i>TOTAL NET ASSETS</i>		1,418,115

TOTAL LIABILITIES AND NET ASSETS	\$	2,681,452
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The accompanying notes are an integral part of these financial statements.

DISTRICT 7 FIRE AND RESCUE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

REVENUES

Bexar County Emergency Services District No. 7	\$ 393,100
Miscellaneous Revenue	12,967
Interest Revenue	539
Gain(Loss) on Sale of Asset	(8,200)
TOTAL REVENUES	398,406

EXPENSES

Program Services:

Firefighting & Prevention	411,560
Depreciation Expense	206,203
<i>Total Program Services</i>	<i>617,763</i>

Support Services:

Administrative	16,217
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TOTAL EXPENSES	633,980
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INCREASE (DECREASE) IN NET ASSETS	(235,574)
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BEGINNING NET ASSETS	1,653,689
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ENDING NET ASSETS	\$ 1,418,115
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The accompanying notes are an integral part of these financial statements.

DISTRICT 7 FIRE AND RESCUE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Firefighting and <u>Fire Prevention</u>	<u>Administrative</u>	<u>Total</u>
Buildings and Grounds Maintenance	\$ 25,833	\$ -	\$ 25,833
Equipment Maintenance	41,543	-	41,543
Fire Station Housing	11,244	-	11,244
Fire Truck Operations	135,636	-	135,636
Insurance	-	9	9
Interest Expense	46,348	-	46,348
Legal Notices	-	3,317	3,317
Professional Fees	16,686	5,100	21,786
Firefighting Supplies & Equipment	85,089	-	85,089
Administrative Supplies & Equipment	-	7,791	7,791
Training and Travel	32,160	-	32,160
Utilities	17,021	-	17,021
Total Expenses Before Depreciation	<u>411,560</u>	<u>16,217</u>	<u>427,777</u>
Depreciation of Property and Equipment	206,203	-	206,203
TOTAL EXPENSES	<u><u>\$ 617,763</u></u>	<u><u>\$ 16,217</u></u>	<u><u>\$ 633,980</u></u>

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

DISTRICT 7 FIRE AND RESCUE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (Decrease) in Net Assets	\$ (235,574)
Adjustments to reconcile changes in net Assets to net Cash provided by operating activities:	
Depreciation Expense	206,203
(Increase) Decrease in Assets:	
Prepaid Insurance	(1,361)
Increase (Decrease) in Liabilities:	
Accounts Payable	4,608
Accrued Interest Expense	(4,199)
NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES	<u>(30,323)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Equipment	<u>(341,166)</u>
NET CASH PROVIDED (REQUIRED) BY INVESTING ACTIVITIES	<u>(341,166)</u>
 CASH FLOW FROM FINANCING ACTIVITIES	
Principal Payment on Long-Term Debt	<u>(127,173)</u>
NET CASH PROVIDED (REQUIRED) BY FINANCING ACTIVITIES	<u>(127,173)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (498,662)
 CASH AND CASH EQUIVALENTS AT BEGINNING YEAR	 <u>681,387</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u><u>\$ 182,725</u></u>
 Supplemental Disclosure	
Interest Paid	\$ 46,348

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

DISTRICT 7 FIRE AND RESCUE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1. NATURE OF ACTIVITIES

District 7 Fire and Rescue (a nonprofit fire department) provides fire protection and emergency services to the area covered by Bexar County Emergency Services District No. 7 (Northwest section of Bexar County). The Department receives the majority of its income from Bexar County Emergency Services District No. 7.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles whereby revenues are recognized when earned and expenses are recognized when they are incurred. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Department and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets that are available for use, but expendable only for those purposes specified by the donor or grantor.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Department.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There have been no temporary or permanent restrictions placed on net assets as of September 30, 2014.

The Department received grants for restricted purposes during the year ended September 30, 2014. All restrictions were met during the year therefore these transactions were recorded as unrestricted net assets for reporting purposes.

3. USE OF ESTIMATES

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

4. CONTRIBUTED SERVICES

The Department receives a substantial amount of services donated by its volunteers in carrying out the Department's mission. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under U.S. generally accepted accounting principles.

DISTRICT 7 FIRE AND RESCUE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE A -- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT):

5. INCOME TAX STATUS

The Department is a not-for-profit Department exempt from Federal income taxes under current Internal Revenue Code Section 501(c)(3). Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose. The Organization's tax years for 2010 through 2013 are open to examination by the Internal Revenue Service as of September 30, 2014.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

7. PROPERTY AND EQUIPMENT

All acquisitions of property and equipment are recorded at cost, if purchased or at fair value at date of gift, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. A salvage value of 10% of original cost is utilized for fire trucks. When assets are disposed of, their cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are credited or charged to operations.

Furniture and equipment is capitalized if cost is over \$5,000. Major improvements and renewals of real property are capitalized if cost is over \$25,000. Repairs and maintenance are expensed as incurred. Estimated useful lives are as follows:

Fire Stations (Buildings) & Improvements	15 to 25 years
Fire Fighting Equipment	7 to 15 years
Fire Trucks & Equipment	5 to 12.5 years

Land is not depreciated.

8. FUNCTIONAL EXPENSE ALLOCATION

The costs of providing the Department's programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

9. SUBSEQUENT EVENTS

Subsequent events were considered through February 13, 2015, which is the date the financial statements were available to be issued.

DISTRICT 7 FIRE AND RESCUE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE B -- PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2014, consisted of the following:

	Beginning Balance	Additions	Deletions	Ending Balance
Fire Station No. 1	\$ 299,856	\$ -	\$ -	\$ 299,856
Fire Station No. 2	323,262	-	-	323,262
Fire Station Improvements	23,161	-	-	23,161
Trucks and Equipment	1,924,564	356,167	(15,000)	2,265,731
Less Accumulated Depreciation	(585,571)	(206,003)	-	(791,574)
Depreciable Property and Equipment, Net	<u>1,985,272</u>	<u>150,164</u>	<u>(15,000)</u>	<u>2,120,436</u>
Land	369,997	-	-	369,997
Total Property & Equipment	<u>\$ 2,355,269</u>	<u>\$ 150,164</u>	<u>\$ (15,000)</u>	<u>\$ 2,490,433</u>

NOTE C -- CAPITAL LEASE OBLIGATION

The Department entered into a Capital Lease agreement for the purchase of two pumper trucks in December 2011. The lease agreement consists of an original financed balance of \$954,940 over 10 years with an interest rate of 3.723%. The Department is to pay an annual payment of \$115,853. The requirement to amortize the lease over the remaining term as of September 30, 2014 is as follows:

Fiscal Year Ending September 30	Principal	Interest	Total
2015	\$ 85,980	\$ 29,873	\$ 115,853
2016	89,246	26,607	115,853
2017	92,635	23,218	115,853
2018	96,153	19,700	115,853
2019	99,805	16,048	115,853
2020-2022	322,740	24,819	347,559
	<u>\$ 786,559</u>	<u>\$ 140,265</u>	<u>\$ 926,824</u>

The equipment above is capitalized as property and equipment for \$954,940 with accumulated depreciation of \$146,424 as of September 30, 2014.

DISTRICT 7 FIRE AND RESCUE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE D -- NOTE PAYABLE

The Department borrowed \$650,000 in May 2007 for construction of fire stations and purchase of related equipment. In January 2013, the Department refinanced the existing note with a principal balance of \$526,305 over 10 years with an interest rate of 3.771%. The loan requires annual payments of \$61,865. The loan is secured by a pledge of future revenues and the underlying real property. The requirement to amortize the loan over the remaining term as of September 30, 2014 is as follows:

Fiscal Year Ending September 30	Principal	Interest	Total
2015	\$ 46,009	\$ 15,856	\$ 61,865
2016	47,744	14,121	61,865
2017	49,544	12,321	61,865
2018	51,412	10,452	61,864
2019	53,351	8,514	61,865
2020-2022	172,429	13,164	185,593
	<u>\$ 420,489</u>	<u>\$ 74,428</u>	<u>\$ 494,917</u>

NOTE E -- CONCENTRATION OF SUPPORT

The Department received \$393,100 in agreement to provide fire protection for Bexar County Emergency Services District No. 7, which represents ninety nine percent (99%) of the Fire Department's revenue. The Board of Directors of District 7 Fire and Rescue are also the Commissioners of Bexar County Emergency Services District No. 7.

NOTE F -- SUBSEQUENT EVENTS

Subsequent to year end, the Department was involved in a related party transaction with Martha Romans, the board president. The Department received a short-term loan in the amount of \$158,000 plus interest at the rate of 3.50% per annum. The loan will be used to purchase a new Type III fire engine. Any unpaid principal and accrued interest will be paid in full on October 22, 2015.

NOTE G -- LITIGATION

The Department management is unaware of any threatened or pending lawsuits.