

ANNUAL FINANCIAL REPORT

of the

Montgomery County Emergency Services District No. 10

For the Year Ended

December 31, 2023

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Montgomery County Emergency Services District No. 10

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Montgomery County Emergency Services District No. 10:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, and each major funds of the Montgomery County Emergency Services District No. 10 (the "District") as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Montgomery County Emergency Services District No. 10, as of December 31, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Montgomery County Emergency Services District No. 10 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note V.D. to the financial statements, the District restated its beginning net position and fund balance for errors in cash and property tax receivable. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, 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.

The image shows a handwritten signature in black ink that reads "Brooks Watson & Co.". The script is cursive and fluid, with the company name written in a single line.

Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
June 24, 2024

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2023

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the Montgomery County Emergency Services District No. 10 (the "District") for the year ended December 31, 2023. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the District as a whole. These statements include transactions and balances relating to all assets, including capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position and the Statement of Activities report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2023

improving or deteriorating. Other non-financial factors, such as the District's operating performance, need to be considered to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities present the District using one class of activity:

1. Governmental Activities – The District's emergency service operations are reported here.

The government-wide financial statements can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the District. They are usually segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The District's operations are reported using governmental funds.

Governmental Funds

Governmental funds are 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, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* 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 government's near-term 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 funds* and *governmental activities*.

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2023

The District maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and debt service fund, which are considered to be major funds. The debt service fund balance was transferred in full to the general fund in the current fiscal year.

The general fund is used to report the District's activities. The debt service fund is used to account for a portion of property tax collected and debt service payments made. The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found after the financial statements within this report.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information ("RSI"). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund. The RSI can be found after the notes to the financial statements within this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$22,185,833 as of yearend. Unrestricted net position, \$6,646,169, may be used to meet the District's ongoing emergency service operations.

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2023

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	2023	2022
Current and other assets	\$ 19,112,368	\$ 26,730,231
Capital assets, net	30,944,671	17,300,646
Total Assets	50,057,039	44,030,877
Deferred outflows of resources	3,188,452	1,147,006
Total Deferred Outflows of Resources	3,188,452	1,147,006
Accounts payable and accrued expenses	2,791,488	1,395,372
Long-term liabilities	15,629,951	9,934,675
Total Liabilities	18,421,439	11,330,047
Deferred inflows of resources	12,638,219	10,887,749
Total Deferred Inflows of Resources	12,638,219	10,887,749
Net Position:		
Net investment in capital assets	15,365,968	15,365,968
Restricted	173,696	1,215,083
Unrestricted	6,646,169	6,379,036
Total Net Position	\$ 22,185,833	\$ 22,960,087

Current and other assets decreased primarily due to funds spent for land and fire station construction costs during the year. Deferred outflows of resources increased due to changes to pension primarily due to the assumption of the volunteer fire department and impact that had on increases to the pension census. Long-term liabilities increased as a result of the debt issuance during the year.

Net capital assets increased due to capital additions exceeding annual depreciation during the year. Major capital asset additions included the following:

- Land purchases totaling \$7,008,410.
- Ladder truck purchase for \$1,360,241.
- Construction-in-progress for fire station improvements totaling \$6,773,987.

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2023

Long-term liabilities consist of notes payable totaling \$15,629,951. For further information on long term debt, see note IV. E. within the footnotes to the financial statements.

Statement of Activities:

The following table provides a summary of the District's changes in net position:

	Governmental Activities	
	2023	2022
Revenues		
General revenues:		
Property taxes	10,283,544	9,508,468
Sales taxes	10,130,242	9,682,941
Donations	-	197,149
Other revenues	249,535	223,850
Investment income	557,471	193,395
Total Revenues	21,220,792	19,805,803
Expenses		
Public safety	21,463,366	18,030,512
Tax penalties	173,146	-
Interest and fiscal charges	358,534	161,584
Total Expenses	21,995,046	18,192,096
Change in Net Position	(774,254)	1,613,707
Beginning Net Position	22,960,087	21,346,380
Ending Net Position	\$ 22,185,833	\$ 22,960,087

The District reported a decrease in net position of \$774,254. Property taxes increased due to greater appraised values, and sales taxes increased due to economic growth within the District. Investment income increased as a result of greater interest-bearing accounts and the realization of higher rates. Increases to public safety expenses was primarily due to increases in personnel costs during the current year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2023

Governmental Funds – The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the year.

The District's general fund reflects a fund balance of \$3,946,625. There was a decrease in the fund balance of \$10,722,321 from the prior year. The decrease was primarily attributable to capital outlay expenditures for station construction projects in progress.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than final budgeted revenues by \$789,526 during the year. This is primarily due to investment earnings of \$557,471 not being budgeted for. Actual general fund expenditures were more than the final budgeted amounts by \$18,133,359. This is primarily due to actual public safety and capital outlay expenditures being over budget appropriations by \$2,036,737 and \$15,383,784, respectively. Other financing sources resulted in a positive variance of \$7,122,846. These variances were the primary reasons for a net negative overall variance of \$10,220,987.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District is located in Montgomery County, Texas. The Board of Commissioners are committed to maintaining the overall wellbeing of the District. In the upcoming year, the District anticipates continued economic growth within the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be directed to Montgomery County ESD #10, 18215 Buddy Riley Blvd, Magnolia, Texas, 77354, telephone (281) 356-3288.

FINANCIAL STATEMENTS

Montgomery County

Emergency Services District No. 10

STATEMENT OF NET POSITION (Page 1 of 2)

December 31, 2023

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 4,203,565
Investments	241,202
Receivables, net	14,332,693
Lease receivables, current	6,175
Total Current Assets	<u>18,783,635</u>
Non-Current Assets	
Net pension asset	173,696
Lease receivables, noncurrent	155,037
Capital assets	
Capital assets - non-depreciable	16,383,841
Capital assets - net depreciable	14,560,830
Total Non-Current Assets	<u>31,273,404</u>
Total Assets	<u><u>50,057,039</u></u>
<u>Deferred Outflows of Resources</u>	
Pension contributions	1,302,098
Pension investment earnings	204,799
Pension changes in assumptions	21,682
Pension experience	1,659,873
Total Deferred Outflows of Resources	<u>3,188,452</u>

See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 10

STATEMENT OF NET POSITION (Page 2 of 2)

December 31, 2023

<u>Liabilities</u>	<u>Governmental Activities</u>
Current Liabilities	
Accounts payable and accrued expenses	\$ 2,073,516
Accrued interest	109,362
Compensated absences, current	547,749
Long-term liabilities due within a year	1,510,230
Total Current Liabilities	<u>4,240,857</u>
Non-Current Liabilities	
Compensated absences, noncurrent	60,861
Long-term liabilities due in more than one year	14,119,721
Total Non-Current Liabilities	<u>14,180,582</u>
Total Liabilities	<u>18,421,439</u>
 <u>Deferred Inflows of Resources</u>	
MCHD lease	396,324
Unavailable revenue - property tax collections related to next year	1,901,996
Unavailable revenue - receivable for next year property tax	10,339,899
Total Deferred Inflows of Resources	<u>12,638,219</u>
 <u>Net Position</u>	
Net investment in capital assets	15,365,968
Restricted for pension	173,696
Unrestricted	6,646,169
Total Net Position	<u><u>\$ 22,185,833</u></u>

See Notes to Financial Statements.

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Montgomery County

Emergency Services District No. 10

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2023

	Governmental Activities
<u>Expenses</u>	
Public Safety - Fire Protection	
Salaries and benefits	\$ 15,537,575
Materials and services	4,482,751
Depreciation	1,443,040
Interest	358,534
Tax penalties	173,146
Total Program Expenses	21,995,046
<u>General Revenues</u>	
Property taxes	10,283,544
Sales taxes	10,130,242
Other revenues	249,535
Investment income	557,471
Total General Revenues	21,220,792
Change in Net Position	(774,254)
Beginning Net Position	22,960,087
Ending Net Position	\$ 22,185,833

See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 10

BALANCE SHEET

December 31, 2023

	General Fund
<u>Assets</u>	
Cash and cash equivalents	\$ 4,203,565
Investments	241,202
Receivables:	
Property taxes	10,620,210
Sales taxes	1,820,942
Lease receivable	161,212
Receivable from federal government	1,886,790
Other	4,751
Total Assets	\$ 18,938,672
<u>Liabilities</u>	
Accounts payable and accrued expenses	\$ 2,073,516
Total Liabilities	2,073,516
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - prop. tax collections	1,901,966
Unavailable revenue - prop. tax receivable	10,620,241
MCHD lease	396,324
Total Deferred Inflows of Resources	12,918,531
<u>Fund balance</u>	
Restricted for:	
Restricted for capital projects	1,708,773
Unassigned	2,237,852
Total Fund Balance	\$ 3,946,625

See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 10

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION December 31, 2023

Total fund balance	\$ 3,946,625
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Amounts reported for governmental activities in the Statement of Net Position:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets, non-depreciable	16,383,841
Capital assets, net depreciable	14,560,830

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Delinquent property taxes receivable	280,312
Net pension asset	173,696

Deferred outflows (inflows) of resources, represent a consumption (acquisition) of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure)/(revenue) until then.

Pension contributions	1,302,098
Pension investment experience	1,659,873
Pension investment earnings	204,799
Pension changes in assumptions	21,682

Long-term liabilities are not due in payable in the current period (i.e. note payables, capital leases, and compensated balances) and, therefore, are not reported as liabilities in the government funds

Accrued interest	(109,362)
Compensated absences	(608,610)
Non-current liabilities due in one year	(1,510,230)
Non-current liabilities due in more than one year	(14,119,721)

	<u><u>\$ 22,185,833</u></u>
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See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 10

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended December 31, 2023

	General Fund
General Revenue	
Property taxes	\$ 10,251,992
Sales taxes	10,130,242
Other revenues	229,762
Investment income	557,471
Total Revenues	21,169,467
Expenditures	
Public safety	21,752,873
Tax penalties	173,146
Capital outlay	15,383,784
Debt service:	
Principal	1,331,224
Interest	373,607
Total Expenditures	39,014,634
Excess of Revenues Over (Under) Expenditures	(17,845,167)
Other Financing Sources (Uses)	
Sale of capital assets	96,346
Loan issuance	7,026,500
Total Financing Sources (Uses)	7,122,846
Net Change in Fund Balance	(10,722,321)
Beginning Fund Balance	14,668,946
Ending Fund Balance	\$ 3,946,625

See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 10

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2023

Net change in fund balance	\$ (10,722,321)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	15,163,638
Depreciation	(1,443,040)
Adjustment for disposals of capital assets	(76,573)

Revenue in the statement of activities that does not provide current financial resources are not reported as revenue in the funds.

Property tax	31,552
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest	15,073
Accrued vacation	(194,372)
Pension (expense)/income	2,147,065

The issuance of long-term debt provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	1,331,224
Loan issuance	(7,026,500)
Change in Net Position	\$ (774,254)

See Notes to Financial Statements.

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Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements and Reporting Entity

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

Montgomery County Emergency Services District No. 10 (the "District") operates under Chapter 775, "Emergency Services Districts" of V.T.C.A, Health and Safety Code. The District was converted from a Rural Fire Prevention District in 1996. The District is a duly organized emergency services district, created to protect life and property from fire and to conserve natural and human resources.

The District is primarily funded by property and sales taxes as paid to it by its citizens and visitors. The District's primary responsibility is to provide fire fighting facilities, fire suppression, and rescue services for its citizens. On January 1, 2022, the District assumed all the operations of the Magnolia Volunteer Fire department (the "VFD"). The VFD transferred all assets and liabilities to the District on this date. There were total assets of \$1,121,316 and total liabilities of \$924,588 assumed by the District. The net assets of \$196,728 was recorded as donation income to the District during the year ended December 31, 2022. Previously the fire department was funded through service payments made from the District on a service contract.

As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. The District has adopted Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity.

The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Basis of Presentation for Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the District as a whole. These statements include all activities of the primary government. Governmental activities are normally supported by property and sales taxes and intergovernmental revenues. Likewise, the *primary government* is reported separately from certain legally separate units for which the primary government is financially accountable.

The Statement of Activities presents a comparison between general government expenses and general revenues of the District's governmental activities. Expenses, such as those used to fund the principal operations of District, are presented as general government expenses. Revenues, such as taxes and investment earnings, are presented as general revenues.

The fund financial statements provide information about the government's funds. Separate statements for each fund category are presented.

The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for the operations of the District's emergency service operations and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to property taxes and sales taxes. Expenditures include all costs associated with the daily operations and contractual obligations of the District.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

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NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 are reported using the pools' share price.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Receivables and Interfund Transactions

Transactions between funds that are representative of the transfer of resources arrangements outstanding at the end of the year are referred to as "due to/from other funds" in the fund statements. Further, the activity occurring during the year involving these transfers of resources between funds are reported at gross amounts as transfers in/out.

3. 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

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NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the District.

4. Capital Assets

Capital assets, which include property, plant, equipment, and vehicle assets (e.g., fire trucks, building, fire apparatus, and similar items) are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles and equipment	5 to 15 years
Furniture	7 years
Buildings and improvements	30 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2023

fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed.

The governing body (board of commissioners) has by resolution authorized the treasurer to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken or the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Long-Term Obligations

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

10. Leases

Lessor: The District is a lessor for a noncancellable lease space within the District's fire station to the Montgomery County Hospital District, "MCHD". The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the

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NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2023

lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

11. Estimates

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

12. Accrued Leave/Compensated Absences

The liability for accrued sick and vacation leave reported in the government-wide financial statements consist of unpaid, accumulated sick and vacation leave. The liability has been calculated using the earned and unused accumulated hours as of December 31, 2023. Unused hours may be paid back to the District on the first day of December each year at the employee's current hourly rate of pay. Employees may not accumulate more than two fiscal years of hours. Any hours over the allowed accumulation are lost without use or financial compensation.

It is the District's policy to liquidate accrued sick and vacation leave with currently available expendable resources. Accordingly, the District's governmental funds recognize accrued leave when paid.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

13. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about Fiduciary Net Pension of the Texas County & District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Fair Value

The District has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term assets, such as property tax receivable, are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "Revenue in the Statement of Activities that does not provide current financial resources are not reported as revenue in the funds."

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The District's investment policy requires full collateralization of all time and bank deposits consistent with Chapter 2257 of the Public Funds Collateral Act. As of December 31, 2023, all accounts were either fully insured or collateralized.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. The budgetary legal level of control is the function level. Encumbrance accounting is not utilized.

A budget is prepared by fund and function. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year. During the year, the District's actual expenditures exceeded the budget for public safety, tax penalties, capital outlay, and debt service by \$2,036,737, \$173,146, \$15,383,784, and \$539,692, respectively.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of December 31, 2023, the District had the following investments:

Investments Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 241,202	0.28
External investment pools	2,683,947	0.03
Total carrying value	<u>\$ 2,925,149</u>	
Portfolio weighted average maturity		0.05

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State.

Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds.

Custodial Credit Risk – deposits. 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. All accounts were fully collateralized for amounts beyond insurance coverage as of yearend.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

The District invests in TexPool and Texas CLASS. At year end, the carrying value of TexPool investments was \$2,539,154. At year end, the carrying value of TexasClass investments was \$144,793.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters.

Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts, for review. TexPool operates in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of their shares. There were no limitations or restrictions on withdrawals.

Texas CLASS

The District is a participant of the Texas CLASS program. Texas CLASS has been established for governmental entities pursuant to the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian and the Program Administrator. The Board administers the affairs of the Trust and enters into contracts and agreements on behalf of the Trust in order to effectuate the terms of the Trust Agreement. It also selects consultants for Texas CLASS, including the Program Administrator and the Custodian. Texas CLASS is rated AAA by Fitch. There were no limitations or restrictions on withdrawals.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

B. Receivables

1. The following comprise receivable balances of the District at year end:

	General Fund
Property taxes	\$ 10,620,210
Sales taxes	1,820,942
Receivable from federal government	1,886,790 ²
Lease	161,212 ³
Other	4,751
Total	\$ 14,493,905

2. Receivable from federal government

During the year ended December 31, 2023, the District paid \$2,355,371 for 2022 payroll taxes that had previously been paid in error under the Magnolia Volunteer Fire Department's employer identification number ("EIN") rather than the District's EIN. After paying the payroll taxes again, but now under the District's EIN, the District filed amended 2022 quarterly 941 payroll tax returns for the Magnolia Volunteer Fire Department in order to receive refunds from the IRS for the payments made in error.

During 2023, the District received \$428,879 of the refund owed from the IRS, and is still owed \$1,886,790. The IRS netted \$173,146 in tax penalties levied against the Magnolia Volunteer Fire Department against the initial disbursement made to the District of \$428,879. The remaining receivable is made up of the receivable owed for payroll taxes paid in duplicate and estimated interest.

3. Lease Receivables

The District is the lessor of a contract in which the District receives rental payments from Montgomery County Hospital District ("MCHD") for use of a portion of the District's fire station. The lease commenced on December 15, 2022, with a term of 20 years. As a part of the rental agreement, MCHD agreed to pay a portion of the construction costs. MCHD made an initial payment of \$250,000 as a construction contribution, and will make a final payment of \$359,779 that is due when the construction is completed, and the building is occupied. This amount will be accrued when that part is finished. The amount is refundable to MCHD on a pro rata basis if this agreement stops at any point. The construction contribution received has been included in the calculation of the related deferrals and amortization. Monthly rental payments of \$950 will be paid through December 15, 2042. As of September 30, 2023, the lease receivable and offsetting deferred inflows amounted to \$161,212 and \$396,324, respectively.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

The annual principal and interest payments to be received are as follows:

Year ending September 30,	Governmental Activities	
	Principal	Interest (3.35%)
2024	\$ 6,175	\$ 5,225
2025	6,385	5,015
2026	6,602	4,798
2027	6,826	4,574
2028	7,059	4,341
Thereafter	128,165	31,435
	<u>\$ 161,212</u>	<u>\$ 55,388</u>

C. Fund Equity

The District records restricted net position and fund balance on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation. Total restricted net position for the District was \$3,362,148 and is restricted for the District's pension.

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NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2023

D. Capital Assets

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,515,497	\$ 7,008,410	\$ -	\$ 8,523,907
Construction in progress	1,085,947	6,773,987	-	7,859,934
Total capital assets not being depreciated	<u>2,601,444</u>	<u>13,782,397</u>	<u>-</u>	<u>16,383,841</u>
Capital assets, being depreciated:				
Office equipment	308,246	-	-	308,246
Buildings	11,493,266	-	-	11,493,266
Vehicles and equipment	19,484,433	1,381,241	(128,215)	20,737,459
Total capital assets being depreciated	<u>31,285,945</u>	<u>1,381,241</u>	<u>(128,215)</u>	<u>32,538,971</u>
Less accumulated depreciation				
Office equipment	(291,156)	(5,654)	-	(296,810)
Buildings	(3,902,701)	(391,336)	-	(4,294,037)
Vehicles and equipment	(12,392,886)	(1,046,050)	51,642	(13,387,294)
Total accumulated depreciation	<u>(16,586,743)</u>	<u>(1,443,040)</u>	<u>51,642</u>	<u>(17,978,141)</u>
Net capital assets being depreciated	<u>14,699,202</u>	<u>(61,799)</u>	<u>(76,573)</u>	<u>14,560,830</u>
Total capital assets	<u><u>\$ 17,300,646</u></u>	<u><u>\$ 13,720,598</u></u>	<u><u>\$ (76,573)</u></u>	<u><u>\$ 30,944,671</u></u>

Depreciation expense was \$1,443,040 for the year ended December 31, 2023.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2023

E. Long-Term Obligations

The following is a summary of long-term obligations for the year ended December 31, 2023:

	Balance at 12/31/2022	Increases	Decreases	Balance at 12/31/2023	Due within a year
Governmental Activities:					
Notes Payable:					
Fire trucks/equipment, due annually					
through 2026, interest at 2.22%	\$ 782,962	\$ -	\$ (187,909)	\$ 595,053	\$ 193,036
Station construction, due annually					
through 2025, interest at 2.00%	1,151,713	-	(462,291)	689,422	471,672
Construction Loan, due semi-annually					
through 2037, interest at 3.35%	8,000,000	-	(430,904)	7,569,096	431,924
Real estate loan, due semi-annually					
through 2037, interest at 4.40%		3,650,000	(250,120)	3,399,880	180,825
Real estate loan, due semi-annually					
through 2037, interest at 4.88%		3,376,500	-	3,376,500	232,773
	<u>\$ 9,934,675</u>	<u>\$ 7,026,500</u>	<u>\$ (1,331,224)</u>	<u>\$ 15,629,951</u>	<u>\$ 1,510,230</u>
			Due in more than one year	<u>\$ 14,119,721</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Future debt service requirements are as follows:

Year ending December 31,	Notes Payable	
	Principal	Interest
2024	\$ 1,510,230	\$ 509,761
2025	1,202,300	543,400
2026	1,023,733	504,809
2027	852,197	466,708
2028	392,360	244,167
Thereafter	10,649,131	2,330,195
Total	<u>\$ 15,629,951</u>	<u>\$ 4,599,040</u>

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

F. Other Long-term Liabilities

The following is a summary of changes in the District's other long-term liabilities for the year ended. The District uses the general fund to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 414,238	\$ 655,169	\$ (460,797)	\$ 608,610	\$ 547,749
Total Governmental Activities	<u>\$ 414,238</u>	<u>\$ 655,169</u>	<u>\$ (460,797)</u>	<u>\$ 608,610</u>	<u>\$ 547,749</u>
Other Long-term Liabilities Due in More than One Year				<u>\$ 60,861</u>	

V. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

B. Contingent Liabilities and Settlements

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The District was sued by Yesenia Espinosa in Civil Action No. 4:23-CV-3103. The suit asserts gender discrimination, hostile work environment and constructive termination-retaliation claims under Title VII of the Civil Rights Act. The plaintiff also asserts claims for assault and battery against an employee of the District. The District intends to vigorously defend against the claims, but is unable to provide an estimate over likely outcome or potential loss range at this time.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2023

In 2023 the District contracted an independent certified public accounting firm to review payroll records of the fire department for the period from January 1, 2022 through June 30, 2023. The firm issued a report over their procedures indicating observations of incorrect payments of payroll due to incorrect practices, system processing and human errors. They identified overpayments and underpayments of approximately \$168,726 and \$58,636, respectively. The District's firefighters compiled their own calculation and submitted the results of that calculation to management and the District's board for approval to be processed for \$189,495. This amount was approved and distributed during 2023. The amount disbursed exceeded the underpayment calculated by the auditor by \$130,859. The District recognized \$120,000 of expense for the related auditor's contract for this report over payroll during the year ended December 31, 2023.

C. Defined Benefit Pension Plan

1. Plan Description

The District provides retirement, disability, and death benefits for all its eligible employees through a nontraditional defined benefit pension plan in the statewide Texas County & District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of nearly 800 nontraditional defined contribution benefit plans. TCDRS, in the aggregate, issues an annual comprehensive financial report ("ACFR") on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

2. Benefits Provided

The plan provisions are adopted by the District within the options available in Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contribution to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the District within the actuarial constraints imposed by the TCDRS Act so that the resulting 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.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

3. Funding Policy

The District has elected the annually determined contribution rate (ADCR) 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 ADCR of 10.87% for calendar year 2023 and 11.13% for calendar year 2022.

The District adopted the rate of 7% as the contribution rate payable by the employee members for calendar years 2023 and 2022. The District may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

4. Contributions

	<u>12/31/2023</u>	<u>12/31/2022</u>
Annual Determined Contribution Cost (ADRC)	\$ 1,302,098	\$ 1,121,142
Actual Contributions Made	\$ (1,302,098)	\$ (1,121,142)
Percentage of APC Made	100%	100%
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The required contribution rates for fiscal year 2023 were determined as part of the December 31, 2022 actuarial valuation.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

Additional information as of the three latest actuarial valuations also follows:

Valuation Date	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent of	Level Percent of	Level Percent of
	payroll, closed	payroll, closed	payroll, closed
Amortization Period	0.0 years	0.0 years	19.5 years
in years			
Asset Valuation Method	5-year Smoothed	5-year Smoothed	5-year Smoothed
	Fund	Fund	Fund
Actuarial Assumptions:			
Investment Rate of	7.6%	7.6%	7.6%
Return *			
Projected Salary	4.60%	4.70%	4.70%
Increases *			
* Includes Inflation at	2.50%	2.50%	2.50%
stated-rate			
Cost-of Living			
Adjustments	0.0%	0.0%	0.0%

Employees covered by benefit terms

At the December 31, 2022, 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	9
Active employees	157
Total	167

5. Net Pension Liability

The District's Net Pension Liability (Asset) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	4.70% per year depending on experience
Investment Rate of Return	7.6%, net of pension plan investment expense, including inflation

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2023

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table.

Actuarial assumptions used in the December 31, 2020, valuation were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 7.60% gross of administrative expenses. 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 pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2023

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected minus inflation) (2)
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.95%
Global Equities	MSCI World (net) Index	2.50%	4.95%
International Equities – Developed Markets	MSCI World Ex USA (net)	5.00%	3.95%
International Equities – Emerging	MSCI Emerging Markets (net)	6.00%	4.95%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	2.40%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.95%
Distressed Debt	Cambridge Associates Distressed Securities Index (3)	4.00%	7.60%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (4)	6.00%	5.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (5)	25.00%	7.95%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash Equivalents	90-Day US Treasury	2.00%	0.20%

(1) Target asset allocation adopted at the March 2023 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 2.3%, per Cliffwater's 2023 capital market assumptions.

(3) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.60%. 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

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2023

expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability (Asset):

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset)(a) – (b)
Balance at 12/31/21	\$ 793,303	\$ 983,669	\$ (190,366)
Changes for the year:			
Service Cost	49,625	-	49,625
Interest on total pension liability ⁽¹⁾	62,221	-	62,221
Effect of plan changes ⁽²⁾	-	-	-
Difference in expected and actual gains or losses	-	-	-
Effect of assumptions changes or inputs	1,771,243	-	1,771,243
Refund of contributions	-	-	-
Benefit payments	(49,366)	(49,366)	-
Administrative expense	-	(1,643)	1,643
Member contributions	-	703,504	(703,504)
Net investment income (loss)	-	(209,195)	209,195
Employer contributions	-	1,122,759	(1,122,759)
Other ⁽³⁾	-	250,994	(250,994)
Net changes	1,833,723	1,817,053	16,670
Balance at 12/31/22	\$ 2,627,026	\$ 2,800,722	\$ (173,696)

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Reflects plan changes adopted effective in 2022.

(3) Relates to allocation of system-wide items.

Sensitivity of the net pension liability / (asset) to changes in the discount rate

The following presents the net pension liability / (asset) of the District, calculated using the discount rate of 7.60%, 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 (6.60%) or 1 percentage point higher (8.60%) than the current rate:

1% Decrease 6.60%	Current Single Rate Assumption 7.60%	1% Increase 8.60%
\$ 278,880	\$ (173,696)	\$ (544,896)

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

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.com.

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2023, the District recognized pension income of \$843,354.

At December 31, 2023, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Investment earnings	\$ 204,799
Changes in actuarial assumptions	21,682
Differences between expected and actual economic experience	1,659,873
Contributions subsequent to the measurement date	1,302,098
Total	\$ 3,188,452

The District reported \$1,302,098 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending December 31, 2023.

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:

2024	\$ 137,696
2025	146,315
2026	148,907
2027	171,918
2028	100,027
Thereafter	1,181,491
	\$ 1,886,354

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2023

D. Restatement

Due to accounting errors over property tax receivable and cash, the District restated beginning net position/fund balance for governmental activities and the general fund.

The restatement of beginning fund balance/net position is as follows:

	Governmental Activities	General Fund
Prior year ending net position/fund balance, reported	\$ 21,749,553	\$ 13,458,412
Correction to cash	426,194	426,194
Correction to tax receivable	784,340	784,340
Restated beginning net position/fund balance	<u>\$ 22,960,087</u>	<u>\$ 14,668,946</u>

E. Subsequent Events

On April 12, 2024, the District borrowed \$1,100,000 for the acquisition to finance a new fire training facility ("burn building"). The debt bears interest at 5.214%, and is payable in annual principal and interest installments of \$191,579 beginning April 12, 2025 and ending April 12, 2031.

In June 2024, the District ordered 5 new fire apparatus for a total of \$5,400,000.

In June 6, 2024, the District sold real estate on Dobbin Huffsmith Road for \$875,000.

There were no other material subsequent events through June 24, 2024, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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Montgomery County
Emergency Services District No. 10
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended December 31, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Property taxes	\$ 10,403,038	\$ 10,357,417	\$ 10,251,992	\$ (105,425)
Sales tax	7,677,720	10,000,000	10,130,242	130,242
Other revenues	22,524	22,524	229,762	207,238
Investment earnings	-	-	557,471	557,471
Total Revenues	<u>18,103,282</u>	<u>20,379,941</u>	<u>21,169,467</u>	<u>789,526</u>
Expenditures				
Public safety	16,938,143	19,716,136	21,752,873	(2,036,737) *
Tax penalties	-	-	173,146	(173,146) *
Capital outlay	-	-	15,383,784	(15,383,784) *
Debt service:				
Principal	1,081,104	1,081,104	1,331,224	(250,120) *
Interest	84,035	84,035	373,607	(289,572) *
Total Expenditures	<u>18,103,282</u>	<u>20,881,275</u>	<u>39,014,634</u>	<u>(18,133,359)</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	96,346	96,346
Loan issuance	-	-	7,026,500	7,026,500
Total Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>7,122,846</u>	<u>7,122,846</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ (501,334)</u>	<u>(10,722,321)</u>	<u>\$ (10,220,987)</u>
Beginning Fund Balance			<u>14,668,946</u>	
Ending Fund Balance			<u>\$ 3,946,625</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* Expenditures exceeded appropriations at the legal level of control.

Montgomery County

Emergency Services District No. 10

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS

Year Ended:

	12/31/2022	12/31/2021	12/31/2020
Total pension liability			
Service cost	\$ 49,625	\$ 55,304	\$ 50,011
Interest (on the Total Pension Liability)	62,221	57,371	50,888
Changes in benefit terms	-	-	-
Effect of economic/demographic gains or losses	1,771,243	3,986	101
Changes of assumptions	-	(4,087)	38,518
Benefit payments, including refunds of participant contributions	(49,366)	(37,025)	-
Net change in total pension liability	1,833,723	75,549	139,518
Total pension liability - beginning	793,303	717,754	578,236
Total pension liability - ending (a)	\$ 2,627,026	\$ 793,303	\$ 717,754
Plan fiduciary net position			
Contributions - employer	\$ 1,122,759	\$ 29,037	\$ 30,700
Contributions - members	703,504	22,685	21,319
Net investment income (loss)	(209,195)	175,872	69,381
Benefit payments, including refunds of participant contributions	(49,366)	(37,025)	-
Administrative expenses	(1,643)	(532)	(580)
Other	250,994	635	1,606
Net change in plan fiduciary net position	1,817,053	190,672	122,426
Plan fiduciary net position - beginning	983,669	792,997	670,571
Plan fiduciary net position - ending (b)	\$ 2,800,722	\$ 983,669	\$ 792,997
Fund's net pension liability (asset) - ending (a) - (b)	\$ (173,696)	\$ (190,366)	\$ (75,243)
Plan fiduciary net position as a percentage of the the total pension liability	106.61%	124.00%	110.48%
Covered payroll	\$ 10,073,156	\$ 324,069	\$ 304,564
Fund's net position as a percentage of covered payroll	-1.72%	-58.74%	-24.71%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a trend is compiled, only available information is shown.

<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u> ¹
\$ 55,710	\$ 45,655	\$ 40,849	\$ 321,277
46,163	36,889	30,388	12,758
-	27,389	-	-
(32,030)	91	3,600	276
-	-	621	-
(11,400)	-	-	-
<u>58,443</u>	<u>110,024</u>	<u>75,458</u>	<u>334,311</u>
<u>519,793</u>	<u>409,769</u>	<u>334,311</u>	<u>-</u>
\$ 578,236	\$ 519,793	\$ 409,769	\$ 334,311
\$ 31,263	\$ 19,118	\$ 21,567	\$ 382,458
22,240	22,994	20,596	14,562
88,468	(8,936)	59,507	-
(11,400)	-	-	-
(511)	(433)	(336)	-
1,534	1,305	564	6,011
<u>131,594</u>	<u>34,048</u>	<u>101,898</u>	<u>403,031</u>
<u>538,977</u>	<u>504,929</u>	<u>403,031</u>	<u>-</u>
\$ 670,571	\$ 538,977	\$ 504,929	\$ 403,031
<u>\$ (92,335)</u>	<u>\$ (19,184)</u>	<u>\$ (95,160)</u>	<u>\$ (68,720)</u>
115.97%	103.69%	123.22%	120.56%
\$ 317,713	\$ 328,481	\$ 294,233	\$ 208,022
-29.06%	-5.84%	-32.34%	-33.03%

1 full ten-year

Fiscal Years Ended:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

Valuation Date:

Methods and Assumptions Used to Determine Contribution Rates:

Other Information:

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<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u> ¹
\$ 30,700	\$ 31,263	\$ 19,118	\$ 21,567	\$ 382,458
<u>\$ 30,700</u>	<u>\$ 31,263</u>	<u>\$ 19,118</u>	<u>\$ 21,567</u>	<u>\$ 382,458</u>
\$ -	\$ -	\$ -	\$ -	\$ -
\$ 304,564	\$ 317,713	\$ 328,481	\$ 294,233	\$ 208,222
10.08%	9.84%	5.82%	7.33%	183.68%