

ANNUAL FINANCIAL REPORT

of the

Montgomery County Emergency Services District No. 7

**For the Year Ended
September 30, 2021**

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Montgomery County Emergency Services District No. 7

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September 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Montgomery County Emergency Services District No. 7:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Montgomery County Emergency Services District No. 7 (the "District"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund as of September 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.



BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
August 23, 2022

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

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Montgomery County Emergency Services District No. 7

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2021

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. 7 (the "District") for the year ended September 30, 2021. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities 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 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 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.

Montgomery County Emergency Services District No. 7

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2021

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*.

The District maintains one governmental fund. 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, which is considered to be a major fund.

The general fund is used to report the District's activities. The District adopts an annual unappropriated budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

Montgomery County Emergency Services District No. 7

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2021

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 \$6,828,845 as of yearend. Unrestricted net position, \$3,333,036, may be used to meet the District's ongoing emergency service operations.

Montgomery County Emergency Services District No. 7

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2021

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

| | Governmental Activities | Governmental Activities |
|---------------------------------------|------------------------------------|------------------------------------|
| | 9/30/21 | 9/30/20 |
| Current and other assets | \$ 4,789,693 | \$ 4,373,704 |
| Capital assets, net | 6,070,601 | 4,930,328 |
| Total Assets | 10,860,294 | 9,304,032 |
| Deferred Outflows of Resources | 153,646 | 61,079 |
| Current liabilities | 749,306 | 319,957 |
| Long-term liabilities | 3,429,800 | 2,760,621 |
| Total Liabilities | 4,179,106 | 3,080,578 |
| Deferred Inflows of Resources | 5,969 | 3,232 |
| Net position: | | |
| Net investment in capital assets | 2,292,884 | 2,051,603 |
| Restricted | 1,202,925 | 1,297,304 |
| Unrestricted | 3,333,036 | 2,932,394 |
| Total Net Position | \$ 6,828,845 | \$ 6,281,301 |

Montgomery County Emergency Services District No. 7

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2021

Statement of Activities:

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

| | <u>Governmental Activities</u> | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|------------------------------------|
| | <u>Year ended 9/30/21</u> | <u>Year ended 9/30/20</u> |
| Revenues | | |
| Sales taxes | \$ 1,787,302 | \$ 1,507,281 |
| Property taxes | 2,491,811 | 2,133,013 |
| Capital grants | - | 1,207,246 |
| Contributions and donations | 938,701 | 875,198 |
| Investment income | 12,152 | 39,363 |
| Other revenues | 86,628 | 15,406 |
| Gain on sale of capital assets | 65,000 | - |
| Total Revenues | <u>5,381,594</u> | <u>5,777,507</u> |
| Expenses | | |
| Personnel | 3,251,025 | 3,060,513 |
| Materials and services | 873,630 | 864,806 |
| Fire Academy | - | 13,998 |
| Depreciation | 603,189 | 464,458 |
| Interest | 106,206 | 66,415 |
| Total Expenses | <u>4,834,050</u> | <u>4,470,190</u> |
| Change in Net Position | 547,544 | 1,307,317 |
| Beginning Net Position | <u>6,281,301</u> | <u>4,973,984</u> |
| Ending Net Position | <u>\$ 6,828,845</u> | <u>\$ 6,281,301</u> |

The District reported an increase in net position of \$547,544. This is primarily due to sales taxes exceeding expectations in the current year. Sales taxes increased by \$280,021 over prior year due to economic growth during the year. The increase in property tax revenues of \$358,798 over prior year is due to an increase in the taxable appraisal values for the District. Personnel expenses increased by \$190,512, which is due to raises and personnel additions in the current year.

Montgomery County Emergency Services District No. 7

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2021

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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 \$3,187,638. There was an increase in the fund balance of \$361,234 over the prior period. This increase is mainly attributed to sales and property taxes exceeding budget during the year.

CAPITAL ASSETS

As of the end of the year, the District had invested \$6,070,601 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles and equipment. Major capital asset events during the current year include the following:

- The District purchased 2 new Pierce Pumpers for \$1,198,634.
- The District spent \$453,223 for station 152 construction.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were greater than final budgeted revenues by \$682,190 during the year. Actual general fund expenditures were greater than the final budgeted appropriations by \$1,454,590. Other financing sources resulted in a positive budget variance of \$1,133,634. These variances were the reasons for a net positive overall variance of \$361,234 over the final budgeted amounts. For the current year, expenditures exceeded appropriations at the legal level of control by \$1,454,590. Of this amount, capital outlay of \$1,133,634 was due to a lease issuance for 2 new pumper trucks.

Montgomery County Emergency Services District No. 7

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2021

LONG TERM DEBT

The District's outstanding debt increased by \$850,047 during the period. The increase was due to the new lease issuance exceeding current year principal payments. The total capital leases and notes payable outstanding at yearend was \$3,728,773.

More detailed information about the District's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District is located in Montgomery County, Texas. An increase in the overall property values in the County resulted in an increase in the assessed valuation of the District. The overall continued development within the District will continue to fuel increased property tax receipts in the coming year.

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 Municipal Accounts & Consulting, LP, 611 Longmire Rd., Conroe, Texas, 77304, telephone (936) 647-4068.

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FINANCIAL STATEMENTS

Montgomery County
Emergency Services District No. 7

STATEMENT OF NET POSITION (Page 1 of 2)

September 30, 2021

| | Governmental Activities |
|---|------------------------------------|
| <u>Assets</u> | |
| Current Assets | |
| Cash and cash equivalents | \$ 2,123,347 |
| Investments | 1,050,000 |
| Receivables | 650,549 |
| Total Current Assets | 3,823,896 |
| Non-Current Assets | |
| Grant receivable, noncurrent portion | 965,797 |
| Capital assets, net of accumulated depreciation | |
| Capital assets - non-depreciable | 886,001 |
| Capital assets - net depreciable | 5,184,600 |
| Total Non-Current Assets | 7,036,398 |
| Total Assets | 10,860,294 |
| <u>Deferred Outflows of Resources</u> | |
| Pension contributions | 43,659 |
| Pension experience vs. assumptions | 44,095 |
| Change in assumptions | 65,892 |
| Total Deferred Outflows of Resources | 153,646 |

Montgomery County
Emergency Services District No. 7
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2021

| | Governmental Activities |
|---|------------------------------------|
| <u>Liabilities</u> | |
| Current Liabilities | |
| Accounts payable and accrued expenses | \$ 349,425 |
| Accrued interest | 69,654 |
| Long-term liabilities due within one year | 330,227 |
| Total Current Liabilities | 749,306 |
| Long-term liabilities | |
| Net pension liability | 31,274 |
| Debt due in more than one year | 3,398,546 |
| Total Non-Current Liabilities | 3,429,820 |
| Total Liabilities | 4,179,126 |
| <u>Deferred Inflows of Resources</u> | |
| Pension investment losses (earnings) | 5,969 |
| Total Deferred Inflows of Resources | 5,969 |
| <u>Net Position</u> | |
| Net investment in capital assets | 2,292,884 |
| Restricted for pension | 116,403 |
| Restricted for debt service | 1,086,522 |
| Unrestricted | 3,333,036 |
| Total Net Position | \$ 6,828,845 |

See Notes to Financial Statements.

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Montgomery County

Emergency Services District No. 7

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

| | Governmental Activities |
|---|------------------------------------|
| <u>Expenses</u> | |
| Public safety-fire protection: | |
| Personnel | \$ 3,251,025 |
| Materials and services | 873,630 |
| Depreciation | 603,189 |
| Interest | 106,206 |
| Total Program Expenses | 4,834,050 |
| <u>General Revenues</u> | |
| Sales taxes | \$ 1,787,302 |
| Property taxes | 2,491,811 |
| Contributions and donations - operating | 938,701 |
| Investment income | 12,152 |
| Other revenues | 86,628 |
| Gain on sale of capital assets | 65,000 |
| Total General Revenues | 5,381,594 |
| Change in Net Position | 547,544 |
| Beginning Net Position | 6,281,301 |
| Ending Net Position | \$ 6,828,845 |

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 7

BALANCE SHEET

September 30, 2021

| | <u>General Fund</u> |
|---|----------------------------|
| <u>Assets</u> | |
| Cash and cash equivalents | \$ 2,123,347 |
| Investments | 1,050,000 |
| Receivables: | |
| Property taxes | 208,321 |
| Sales taxes | 314,873 |
| Grant | 1,086,521 |
| Other | 6,631 |
| Prepaid expenses | 61,629 |
| Total Assets | <u><u>4,851,322</u></u> |
| <u>Liabilities</u> | |
| Accounts payable and accrued expenses | 349,425 |
| Total Liabilities | <u><u>349,425</u></u> |
| <u>Deferred Inflows of Resources</u> | |
| Unavailable revenue - property taxes | 227,737 |
| Unavailable revenue - grant receivable | 1,086,522 |
| Total Deferred Inflows of Resources | <u><u>1,314,259</u></u> |
| <u>Fund Balances</u> | |
| Nonspendable - prepaid items | 61,629 |
| Unassigned | 3,126,009 |
| Total Fund Balance | <u><u>\$ 3,187,638</u></u> |

See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 7

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2021

| | |
|--|---------------------|
| Total fund balance | \$ 3,187,638 |
| 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 | 886,001 |
| Capital assets - net depreciable | 5,184,600 |
| Other long-term assets are not available to pay for current-period expenditures, and, therefore, are deferred in the governmental funds. | |
| Property taxes receivable | 227,737 |
| Grant receivable | 1,086,522 |
| Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then. | |
| Pension contributions | 43,659 |
| Pension experience vs. assumptions | 44,095 |
| Change in assumptions | 65,892 |
| Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and is not recognized as an inflow of resources (revenues) until then. | |
| Pension investment losses (earnings) | (5,969) |
| Long-term liabilities are not due in payable in the current period and, therefore, are not reported as liabilities in the government funds | |
| Prepaid expense in governmental funds for early debt payment | (61,629) |
| Accrued interest | (69,654) |
| Net pension liability | (31,274) |
| Non-current liabilities due in one year | (330,227) |
| Non-current liabilities due in more than one year | (3,398,546) |
| Net Position of Governmental Activities | \$ 6,828,845 |

See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 7

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended September 30, 2021

| | <u>General Fund</u> |
|---|----------------------------|
| Revenues | |
| Property taxes | \$ 2,462,894 |
| Sales taxes | 1,787,302 |
| Capital grants | 120,725 |
| Contributions and donations | 938,701 |
| Investment income | 12,152 |
| Other revenues | 151,628 |
| Total Revenues | <u>5,473,402</u> |
| Expenditures | |
| Public safety | 4,156,810 |
| Capital outlay | 1,737,653 |
| Debt service: | |
| Principal | 283,587 |
| Interest | 67,752 |
| Total Expenditures | <u>6,245,802</u> |
| Other Financing Sources / (Uses) | |
| Lease issuance | 1,133,634 |
| Total Other Financing Sources / (Uses) | <u>1,133,634</u> |
| Net Change in Fund Balance | 361,234 |
| Beginning Fund Balance | <u>2,826,404</u> |
| Ending Fund Balance | <u><u>\$ 3,187,638</u></u> |

See Notes to Financial Statements.

Montgomery County
Emergency Services District No. 7
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES*
For the Year Ended September 30, 2021

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

| | | |
|----------------------------|----|---------|
| Net change in fund balance | \$ | 361,234 |
|----------------------------|----|---------|

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. This is the amount by which capital outlays was more than depreciation in the current period.

| | | |
|----------------|--|-----------|
| Capital outlay | | 1,743,462 |
| Depreciation | | (603,189) |

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

| | | |
|----------------------------|--|-----------|
| Property taxes | | 28,917 |
| Long term grant receivable | | (120,724) |

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 | | (38,454) |
| Pension (expense)/income | | 26,345 |

The issuance of long-term debt (i.e. capital leases) 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.

| | | |
|--------------------|--|-------------|
| Loan issuance | | (1,133,634) |
| Principal payments | | 283,587 |

| | | |
|--|----|----------------|
| | \$ | <u>547,544</u> |
|--|----|----------------|

See Notes to Financial Statements.

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Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

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. 7 (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 1995. 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 consolidated their operations with Montgomery County Emergency Services District No. 11 ("District No. 11") on June 9, 2015 (the "merger date"). A new entity was formed on the merger date, under the original name of the District.

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 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.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

B. Basis of Presentation 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.

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 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

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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 capital 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). 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.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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 governmental 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." 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 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

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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 initial individual cost of more than \$5,000 and 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 primary government are depreciated using the straight-line method over the following estimated useful years.

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|-------------------------------|------------------------------|
| Vehicles | 5 to 12 years |
| Furniture and other equipment | 3 to 10 years |
| Buildings and improvements | 10 to 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.

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)

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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 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.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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 for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Compensated Absences

The liability for compensated absences reported in the government-wide fund statements consists of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the District's policy to liquidate compensated absences with currently available expendable resources. Accordingly, the District's governmental funds recognize accrued compensated absences when it is paid.

10. 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 capital 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, capital 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.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and pension expense have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. See Note V.C. for additional information.

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.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

A budget is prepared by fund and function. Appropriations lapse at the end of the year. For the year ended September 30, 2021, expenditures exceeded appropriations at the legal level of control by \$1,454,590.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2021, the District had the following investments:

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|-----------------------|--|
| Certificates of deposit | 1,050,000 | 0.55 |
| External investment pools | 1,540,479 | 0.15 |
| Total carrying value | <u>\$ 2,590,479</u> | |
| Portfolio weighted average maturity | | 0.31 |

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. The District requires funds on deposit at the depository bank to be collateralized by securities when in excess of FDIC coverage. As of September 30, 2021, checking deposits were collateralized by an amount over and above the yearend balances exceeding FDIC coverage.

The District's external investment pools consist of investments in Texas CLASS.

Texas CLASS

Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated 'AAAm' by Standard and Poor's Ratings Services. The 'AAAm' principal stability fund rating is the highest assigned to principal stability government investment pools and is a direct reflection of Texas CLASS's outstanding

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

credit quality and management. At September 30, 2021, the fair value of the position in Texas CLASS approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

| | General Fund |
|------------------|-------------------------|
| Property taxes | \$ 208,321 |
| Sales taxes | 314,873 |
| Grant receivable | 1,086,521 |
| Other | 6,631 |
| Total | \$ 1,616,346 |

The District's grant receivable of \$1,086,521 is owed from the East Montgomery County Improvement District ("EMCID") related to the May 29, 2020 grant agreement. The grant agreement relates to funding debt service payments for the purchase of a fire truck by the District. The \$1,086,521, is the same as the principal amount of the grant. As a part of the grant agreement, EMCID agreed to pay the principal amount of the note payable and one half of the interest expense. The principal amount is fully accrued at yearend, and the portion related to interest is accrued with time.

The below schedule shows the future expected payments of the receivable:

| Year ending September 30, | Grant receivable (per contract) | | |
|--------------------------------------|--|------------------|---------------------|
| | Principal | Interest | Total |
| 2022 | \$ 120,725 | \$ 8,271 | \$ 128,996 |
| 2023 | 120,725 | 8,271 | 128,996 |
| 2024 | 120,725 | 8,271 | 128,996 |
| 2025 | 120,725 | 8,271 | 128,996 |
| 2026 | 120,725 | 8,271 | 128,996 |
| 2027 | 120,725 | 8,271 | 128,996 |
| 2028 | 120,725 | 8,271 | 128,996 |
| 2029 | 120,725 | 8,271 | 128,996 |
| 2030 | 120,721 | 8,271 | 128,992 |
| | \$ 1,086,521 | \$ 74,439 | \$ 1,160,960 |

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

C. Capital Assets

The following is a summary of changes in capital assets for the period ended September 30, 2021:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases/ Reclassifications</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|---|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 393,438 | \$ - | \$ - | \$ 393,438 |
| Construction in progress | 39,340 | 453,223 | - | 492,563 |
| Total capital assets not being depreciated | <u>432,778</u> | <u>453,223</u> | <u>-</u> | <u>886,001</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 3,396,733 | 47,111 | - | 3,443,844 |
| Vehicles and equipment | 6,149,689 | 1,243,128 | (202,348) | 7,190,469 |
| Total capital assets being depreciated | <u>9,546,422</u> | <u>1,290,239</u> | <u>(202,348)</u> | <u>10,634,313</u> |
| Less accumulated depreciation | | | | |
| Buildings | (1,599,026) | (116,660) | - | (1,715,686) |
| Vehicles and equipment | (3,449,846) | (486,529) | 202,348 | (3,734,027) |
| Total accumulated depreciation | <u>(5,048,872)</u> | <u>(603,189)</u> | <u>202,348</u> | <u>(5,449,713)</u> |
| Net capital assets being depreciated | <u>4,497,550</u> | <u>687,050</u> | <u>-</u> | <u>5,184,600</u> |
| Total Capital Assets | <u>\$ 4,930,328</u> | <u>\$ 1,140,273</u> | <u>\$ -</u> | <u>\$ 6,070,601</u> |

Depreciation expense was \$603,189 for the year ended September 30, 2021.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

D. Long-Term Obligations

The following is a summary of long-term obligations for the period ended September 30, 2021:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| Capital leases: | | | | | |
| 2016 Ferrara Pumper, due in annual installments through 2025, interest at 2.84% | \$ 284,997 | \$ - | \$ (52,094) | \$ 232,903 | \$ - |
| 2019 Ferrara Pumper, due in annual installments through 2028, interest at 2.99% | 391,393 | - | (37,224) | 354,169 | 38,654 |
| 2021 Peirce Enforcer Pumpers (2), due in annual installments through 2030, interest at 1.62% | - | 1,133,634 | (113,540) | 1,020,094 | 106,201 |
| Notes payable: | | | | | |
| New Station Loan, due in annual installments through 2037, interest at 4.15% | 553,373 | - | (23,052) | 530,321 | 24,025 |
| 2017 Ferrara Pumper, due in annual installments through 2027, interest at 2.99% | 441,717 | - | (57,677) | 384,040 | 59,543 |
| 2020 Ladder Truck, due in annual installments through 2030, interest at 2.25% | 1,207,246 | - | - | 1,207,246 | 101,804 |
| Total Governmental Activities | <u>\$ 2,878,726</u> | <u>\$ 1,133,634</u> | <u>\$ (283,587)</u> | <u>\$ 3,728,773</u> | <u>\$ 330,227</u> |
| | | | | <u>\$ 3,398,546</u> | |
| | | | | | Long-term liabilities due in more than one year |

The assets financed with capital leases are reported in vehicles and equipment and had a carrying value of \$1,603,571 as of September 30, 2021.

Capital leases are secured by the underlying asset being leased. If the District were to default on a lease, the District would likely have to forfeit the respective asset being leased.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

As of September 30, 2021, the debt service requirements are as follows:

| Year ending September 30, | Capital Leases | | Notes Payable | |
|------------------------------|---------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2022 | \$ 144,855 | \$ 38,177 | \$ 185,372 | \$ 68,999 |
| 2023 | 203,156 | 33,450 | 198,394 | 55,976 |
| 2024 | 208,011 | 28,596 | 203,822 | 50,548 |
| 2025 | 212,997 | 23,609 | 209,351 | 45,019 |
| 2026 | 218,120 | 18,487 | 215,150 | 39,220 |
| 2027 | 161,753 | 13,646 | 221,061 | 33,309 |
| 2028 | 165,410 | 9,568 | 156,088 | 27,227 |
| 2029 | 170,633 | 5,812 | 160,197 | 23,118 |
| 2030 | 122,240 | 1,955 | 164,473 | 18,842 |
| 2031 | - | - | 168,847 | 14,468 |
| 2032 | - | - | 36,079 | 9,969 |
| 2033 | - | - | 37,576 | 8,472 |
| 2034 | - | - | 39,136 | 6,912 |
| 2035 | - | - | 40,760 | 5,288 |
| 2036 | - | - | 42,451 | 3,597 |
| 2037 | - | - | 42,850 | 1,835 |
| | <u>\$ 1,607,175</u> | <u>\$ 173,300</u> | <u>\$ 2,121,607</u> | <u>\$ 412,799</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

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,

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

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 a comprehensive annual 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.

Plan Initiation

In February 2017, the District began enrollment within the TCDRS defined benefit pension plan for all full and part-time employees. The District's initial contributions were submitted in March 2017.

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 10 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 80 or more. Members are vested after 10 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.

The Plan is open to new entrants.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

3. Eligible Participants

All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

4. 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 2.13% for calendar year 2021, and 2.09% for calendar year 2020. The District's contributions for the year ending September 30, 2021 was \$57,577.

The District adopted the rate of 5% as the contribution rate payable by the employee members for calendar years 2021 & 2020. The District may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

5. Contributions

The required contribution rates for fiscal year 2021 were determined as part of the December 31, 2020 actuarial valuation.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

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

| Valuation Date | <u>12/31/2018</u> | <u>12/31/2019</u> | <u>12/31/2020</u> |
|-------------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Actuarial Cost Method | Entry Age | Entry Age | Entry Age |
| Amortization Method | Level Percent of payroll, closed | Level Percent of payroll, closed | Level Percent of payroll, closed |
| Amortization Period in years | 19.2 years | 18.0 years | 20.0 years |
| Asset Valuation Method | 5-year Smoothed Fund | 5-year Smoothed Fund | 5-year Smoothed Fund |
| Actuarial Assumptions: | | | |
| Investment Rate of Return * | 8.0% | 8.0% | 7.5% |
| Projected Salary Increases * | 4.90% | 4.90% | 4.60% |
| * Includes Inflation at stated-rate | 2.75% | 2.75% | 2.50% |
| Cost-of Living Adjustments | 0.0% | 0.0% | 0.0% |

Employees covered by benefit terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 0 |
| Inactive employees entitled to but not yet receiving benefits | 47 |
| Active employees | 63 |
| Total | 110 |

6. Net Pension Liability (Asset)

The District's Net Pension Liability (Asset) was measured as of December 31, 2020, 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 | 3.00% per year depending on experience |
| Investment Rate of Return | 7.50%, net of pension plan investment expense, including inflation |

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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, 2017, 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 8.1% 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. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

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 | 14.50% | 5.20% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index (3) | 20.00% | 8.20% |
| Global Equities | MSCI World (net) Index | 2.50% | 5.50% |
| International Equities – Developed | MSCI World Ex USA (net) | 7.00% | 5.20% |
| International Equities – Emerging | MSCI Emerging Markets (net) | 7.00% | 5.70% |
| Investment-Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | -.20% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 12.00% | 3.14% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 11.00% | 7.16% |
| Distressed Debt | Cambridge Associates Distressed Securities Index (4) | 4.00% | 6.90% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index | 3.00% | 4.50% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 2.00% | 8.40% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index (5) | 6.00% | 5.50% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 8.00% | 2.30% |

(1) Target asset allocation adopted at the June 2020 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.80%, per Cliffwater's 2019 capital market assumptions.

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

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

(5) Includes vintage years 2007-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 expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

Changes in the Net Pension Liability (Asset):

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset)(a) – (b) |
|--|--------------------------------|------------------------------------|--|
| Balance at 12/31/19 | \$ 468,551 | \$ 500,762 | \$ (32,211) |
| Changes for the year: | | | |
| Service Cost | 160,740 | - | 160,740 |
| Interest on total pension liability ⁽¹⁾ | 50,162 | - | 50,162 |
| Effect of plan changes ⁽²⁾ | - | - | - |
| Difference in experience gains or losses | 31,451 | - | 31,451 |
| Effect of assumptions changes or inputs | 76,640 | - | 76,640 |
| Refund of contributions | (20,413) | (20,413) | - |
| Administrative expense | - | (538) | 538 |
| Member contributions | - | 139,886 | (139,886) |
| Net investment income | - | 52,096 | (52,096) |
| Employer contributions | - | 58,741 | (58,741) |
| Other ⁽³⁾ | - | 5,323 | (5,323) |
| Net changes | 298,580 | 235,095 | 63,485 |
| Balance at 12/31/20 | \$ 767,131 | \$ 735,857 | \$ 31,274 |

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

(2) No plan changes valued.

(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% |
|----------------------|---|----------------------|
| \$ 220,351 | \$ 31,274 | \$ (115,339) |

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

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.

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

For the year ending September 30, 2021, the District recognized pension expense of \$33,535.

At September 30, 2021, the District reported deferred outflows/inflows of resources related to pensions from the following sources:

| | <u>Deferred</u> <u>Outflows of Resources</u> | <u>Deferred</u> <u>(Inflows) of Resources</u> |
|---|---|--|
| Investment losses (gains) | \$ - | \$ (5,969) |
| Changes in actuarial assumptions | 65,892 | - |
| Differences between expected and actual economic experience | 44,095 | - |
| Contributions subsequent to the measurement date | 43,659 | - |
| Total | <u>\$ 153,646</u> | <u>\$ (5,969)</u> |

The District reported \$43,659 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 September 30, 2022.

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: | |
|--------------------------------|-------------------|
| 2021 | \$ 15,134 |
| 2022 | 14,575 |
| 2023 | 11,268 |
| 2024 | 14,511 |
| 2025 | 15,365 |
| Thereafter | 33,165 |
| | <u>\$ 104,018</u> |

D. Agreement with East Montgomery County Improvement District

On September 27, 2007, the District entered into an agreement (the "Agreement") with East Montgomery County Improvement District (EMCID). The Agreement stated that EMCID

Montgomery County Emergency Services District No. 7

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

will provide a total loan (the "Loan") of \$1,500,000 to the District for the purpose of hiring additional firefighting personnel and to provide expanded emergency services within its boundaries.

On September 22, 2009, the District approved an amendment to the Agreement in which the loan was defined as a grant (herein after referred to as the "Grant") and repayment is no longer a condition of the Agreement. Also as a part of the amendment, if a sales tax election was successful in November of 2009 for EMCID, EMCID will make an additional grant (the "Additional Grant") to the District in the amount of \$600,000 to be used to hire additional firefighting personnel and provide expanded emergency services within its boundaries. This Additional Grant would be funded in equal amounts over a two year period, with the first funding being made on December 1, 2012 and the second on December 1, 2013.

The amended Agreement terms include a monthly donation (the "Monthly Donation") from EMCID to be paid to the District on April 1, 2010 and the first day of each subsequent month during the term of the Agreement. EMCID will also provide an additional monthly donation to the District in the amount of \$6,250 (the "Additional Donation") beginning on December 1, 2009, and the first day of each subsequent month during the term of the Agreement until the total of 12 consecutive Monthly Donations is equal to or greater than \$263,000, at which time the Additional Donation shall end. The Monthly Donation is calculated based on the amount the District would have received from actual sales tax collected from the portion of the District that is within EMCID with the exception of the portion dedicated to the development referred to as the Earth Quest Tract. The term of the Agreement is for 25 years from the effective date and may be extended for an additional term of up to 25 years prior to the expiration of the original term.

On September 20, 2018, the District entered into an agreement (the "Agreement") with East Montgomery County Improvement District (EMCID). The Agreement stated that EMCID will provide a grant up to \$1,248,301 (the "Grant") for payments to service the debt to finance the purchase of a fire truck for the District. The related purchase never occurred until after this grant agreement was later amended on May 29, 2020. Per the terms of the amended grant agreement, EMCID agreed to pay the principal portion of the fire truck purchase up to \$1,207,246, and half of the interest expense if the interest rate is 4.25% or below.

Grant revenue received by the District during the year ended September 30, 2021, totaled \$1,059,426.

E. Subsequent Events

There were no material subsequent events through August 23, 2022, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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Montgomery County
Emergency Services District No. 7
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended September 30, 2021

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|--------------------|------------------|---------------------|------------------------------------|
| Revenues | | | | |
| Property taxes | \$ 2,412,443 | \$ 2,405,783 | \$ 2,462,894 | \$ 57,111 |
| Sales taxes | 1,534,166 | 1,533,446 | 1,787,302 | 253,856 |
| Capital grants | 120,725 | 120,725 | 120,725 | - |
| Contributions and donations | 633,185 | 706,258 | 938,701 | 232,443 |
| Investment earnings | 20,000 | 20,000 | 12,152 | (7,848) |
| Other income | 5,300 | 5,000 | 151,628 | 146,628 |
| Total Revenues | <u>4,725,819</u> | <u>4,791,212</u> | <u>5,473,402</u> | <u>682,190</u> |
| Expenditures | | | | |
| Public safety | 4,332,770 | 4,377,727 | 4,156,810 | 220,917 |
| Capital outlay | 175,000 | 97,000 | 1,737,653 | (1,640,653) |
| Debt service: | | | | |
| Principal | 132,975 | 246,515 | 283,587 | (37,072) |
| Interest | - | 69,970 | 67,752 | 2,218 |
| Total Expenditures | <u>4,640,745</u> | <u>4,791,212</u> | <u>6,245,802</u> | <u>(1,454,590) *</u> |
| Other Financing Sources / (Uses) | | | | |
| Lease issuance | - | - | 1,133,634 | 1,133,634 |
| Total Other Financing Sources / (Uses) | <u>-</u> | <u>-</u> | <u>1,133,634</u> | <u>1,133,634</u> |
| Net Change in Fund Balance | <u>\$ 85,074</u> | <u>\$ -</u> | 361,234 | <u>\$ 361,234</u> |
| Beginning Fund Balance | | | <u>2,826,404</u> | |
| Ending Fund Balance | | | <u>\$ 3,187,638</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. 7

SCHEDULE OF CHANGES IN NET PENSION ASSET/LIABILITY AND TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Years Ended

| | 12/31/2020 | 12/31/2019 |
|---|-------------------|--------------------|
| Total pension liability (asset) | | |
| Service cost | \$ 160,740 | \$ 151,691 |
| Interest (on the Total Pension Liability) | 50,162 | 34,351 |
| Changes in benefit terms | - | - |
| Differences between expected and actual experience | 31,451 | 12,714 |
| Changes of assumptions | 76,640 | - |
| Benefit payments, including refunds of part. contributions | (20,413) | (5,091) |
| Net change in total pension liability | 298,580 | 193,665 |
| Total pension liability - beginning | 468,551 | 274,886 |
| Total pension liability - ending (a) | \$ 767,131 | \$ 468,551 |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 58,741 | \$ 54,196 |
| Contributions - members | 139,886 | 120,076 |
| Net investment income | 52,096 | 45,851 |
| Benefit payments, including refunds of participant contributions | (20,413) | (5,091) |
| Administrative expenses | (538) | (382) |
| Other | 5,323 | 5,862 |
| Net change in plan fiduciary net position | 235,095 | 220,512 |
| Plan fiduciary net position - beginning | 500,762 | 280,250 |
| Plan fiduciary net position - ending (b) | \$ 735,857 | \$ 500,762 |
| Fund's net pension (asset) / liability - ending (a) - (b) | \$ 31,274 | \$ (32,211) |
| | | |
| Plan fiduciary net position as a percentage of the total pension liability | 95.92% | 106.87% |
| Covered payroll | \$ 2,797,723 | \$ 2,401,516 |
| Fund's net position as a percentage of covered payroll | 1.12% | -1.34% |

Notes to schedule:

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.

| <u>12/31/2018</u> | <u>12/31/2017</u> | ¹ |
|-------------------|-------------------|--------------|
| \$ 134,475 | \$ 107,247 | |
| 20,057 | 8,687 | |
| - | - | |
| 8,454 | 92 | |
| - | (1,688) | |
| (2,438) | - | |
| <u>160,548</u> | <u>114,338</u> | |
| <u>114,338</u> | <u>-</u> | |
| <u>\$ 274,886</u> | <u>\$ 114,338</u> | |
| | | |
| \$ 52,753 | \$ 38,293 | |
| 106,788 | 77,517 | |
| (465) | 1,863 | |
| (2,438) | - | |
| (225) | (79) | |
| 4,693 | 1,550 | |
| <u>161,106</u> | <u>119,144</u> | |
| <u>119,144</u> | <u>-</u> | |
| <u>\$ 280,250</u> | <u>\$ 119,144</u> | |
| <u>\$ (5,364)</u> | <u>\$ (4,806)</u> | |

| | | |
|--------------|--------------|---------|
| | 101.95% | 104.20% |
| \$ 2,135,754 | \$ 1,550,334 | |
| -0.25% | -0.31% | |

Montgomery County Emergency Services District No. 7

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

For The Years Ended September 30,

| | 2021 | 2020 | 2019 |
|---|--------------|--------------|--------------|
| Actuarially determined employer contributions | \$ 57,577 | \$ 54,998 | \$ 55,490 |
| Contributions in relation to the actuarially determined contribution | \$ 57,577 | \$ 54,998 | \$ 55,490 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Annual covered employee payroll | \$ 2,719,171 | \$ 2,592,950 | \$ 2,386,697 |
| Employer contributions as a percentage of covered employee payroll | 2.12% | 2.12% | 2.32% |

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.

2) Payroll shown for 2017 is based on a start date in February 2017 to be consistent with time period contributions being made.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|---|
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 20.0 years |
| Asset Valuation Method | 5 year smoothed market |
| Inflation | 2.50% |
| Salary Increases | Varies by age and service. 4.9% average over career. |
| Investment Rate of Return | 7.50%, net of investment expenses, including inflation |
| Retirement Age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. |

Other Information:

Notes No changes in plan provisions were reflected in the schedule

| | <u>2018</u> | | <u>2017</u> | ¹ |
|----|---------------|----|---------------|--------------|
| \$ | 50,121 | \$ | 27,154 | |
| | | | | |
| \$ | <u>50,121</u> | \$ | <u>27,154</u> | |
| \$ | - | \$ | - | |
| \$ | 2,031,266 | \$ | 1,099,904 | ² |
| | 2.47% | | 2.47% | |