

ANNUAL FINANCIAL REPORT

of the

Montgomery County ESD 1

As of September 30, 2021

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Montgomery County ESD 1

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Montgomery County ESD 1:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Montgomery County ESD 1 (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 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
April 19, 2022

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

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Montgomery County ESD 1

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 ESD 1 (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, 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 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 ESD 1

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, the general 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 ESD 1
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 and schedules covering the District's pension. 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 exceeded liabilities by \$10,827,037 as of yearend. Unrestricted net position, \$4,476,589, may be used to meet the District's ongoing emergency service operations.

Montgomery County ESD 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2021

Statement of Net Position:

The following table reflects the condensed Statement of Net Position as of September 30:

	Governmental Activities	
	2021	2020
Current and other assets	\$ 5,701,819	\$ 5,526,093
Capital assets, net	10,018,530	9,774,868
Total Assets	<u>15,720,349</u>	<u>15,300,961</u>
Deferred Outflows of Resources	2,299,616	979,306
Current liabilities	1,587,340	1,794,253
Long-term liabilities	5,363,280	4,019,346
Total Liabilities	<u>6,950,620</u>	<u>5,813,599</u>
Deferred Inflows of Resources	242,308	147,358
Net Position:		
Net investment in capital assets	5,777,559	5,943,902
Restricted	572,889	445,074
Unrestricted	4,476,589	3,930,334
Total Net Position	<u><u>\$ 10,827,037</u></u>	<u><u>\$ 10,319,310</u></u>

Montgomery County ESD 1
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 for the years ended September 30, 2021 and 2020.

	Governmental Activities	
	2021	2020
Revenues		
Property taxes	\$ 4,741,451	\$ 4,094,969
Sales taxes	6,813,227	6,607,017
Other	181,756	117,432
Operating grants	595,593	247,687
Contributions and donations	12,700	100
Investment income	6,003	22,546
Total Revenues	12,350,730	11,089,751
Expenses		
Administration	1,768,125	1,953,060
Salaries and benefits	9,121,282	8,072,155
Depreciation	846,674	876,793
Interest	106,922	119,185
Total Expenses	11,843,003	11,021,193
Change in Net Position	507,727	68,558
Beginning Net Position	10,319,310	10,250,752
Change in Net Position	\$ 10,827,037	\$ 10,319,310

The District reported an increase in overall net position of \$507,727 compared to the prior year. The increase was primarily due to the District's increased operating grants received in 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.

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 unassigned fund balance was \$4,499,950 or 35% of annual expenditures.

Montgomery County ESD 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2021

The District's general fund reflects a fund balance of \$4,734,358. There was an increase in the fund balance of \$30,034 over the prior year. This increase was primarily due to intergovernmental revenues in the current year.

CAPITAL ASSETS

As of the end of the year, the District had invested \$10,018,530 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 SCBA equipment for \$858,446.
- Construction in progress for new fire station for \$169,035.

LONG-TERM DEBT

The total long-term debt outstanding at the close of the year was \$4,240,971. During the year, the District issued debt of \$874,390 and made principal payments of \$523,021, resulting in a net increase to debt during the year of \$351,369.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were over the final budgeted revenues by \$148,218 during the year. General fund expenditures were over the final budget by \$1,091,544, primarily due to capital outlay expenditures and public safety expenses being over budget. Other financing sources were \$880,576 over budget due to a debt issuance not included in the budget. These variances were the reason for a net negative overall variance of \$62,750 over the final budgeted amounts.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District is located in Montgomery County, Texas. The District's appointed officials and citizens considered many factors when setting the 2022 fiscal year budget. The economy, employment growth, traffic patterns, and other factors were all a part of their considerations.

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 1 at 310 N. Danville Street, Suite A, Willis, Texas 77378.

FINANCIAL STATEMENTS

Montgomery County
Emergency Services District 1
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2021

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	
Cash	\$ 3,654,898
Prepaid expenses	31,762
Receivables:	
Property taxes	278,904
Sales taxes	1,278,686
Other	457,569
Total Current Assets	<u>5,701,819</u>
Non-Current Assets	
Capital assets, net of accumulated depreciation	
Capital assets - non-depreciable	1,864,946
Capital assets - net depreciable	8,153,584
Total Non-Current Assets	<u>10,018,530</u>
Total Assets	<u><u>15,720,349</u></u>
Deferred Outflows of Resources	
Pension contributions	543,230
Pension actual vs. expected experience	770,229
Pension assumptions	986,157
Total Deferred Outflows of Resources	<u>\$ 2,299,616</u>

See notes to Financial Statements

Montgomery County
Emergency Services District 1
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2021

Liabilities

Current Liabilities

Accounts payable	\$	105,051
Accrued expenses		482,400
Compensated absences, current		574,001
Current portion of long-term debt		425,888
Total Current Liabilities		1,587,340

Long-Term Liabilities

Net pension liability		1,484,419
Compensated absences, noncurrent		63,778
Long-term debt due in more than one year		3,815,083
Total Liabilities		6,950,620

Deferred Inflows of Resources

Pension gains		242,308
Total Deferred Inflows of Resources		242,308

Net Position

Net investment in capital assets		5,777,559
Restricted for pension		572,889
Unrestricted		4,476,589
Total Net Position	\$	10,827,037

See Notes to Financial Statements.

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Montgomery County Emergency Services District 1

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

	Governmental Activities
<u>Expenses</u>	
Public safety - fire protection	
Administration	\$ 1,768,125
Salaries and benefits	9,121,282
Depreciation	846,674
Interest	106,922
Total Program Expenses	11,843,003
 <u>Program Revenues</u>	
Operating grants	595,593
Contributions and donations	12,700
Total Program Revenues	608,293
 <u>General Revenues</u>	
Property taxes	4,741,451
Sales taxes	6,813,227
Other revenues	181,756
Investment income	6,003
Total General Revenues	11,742,437
Change in Net Position	507,727
Beginning Net Position	10,319,310
Ending Net Position	\$ 10,827,037

See Notes to Financial Statements.

Montgomery County Emergency Services District 1

BALANCE SHEET

September 30, 2021

	General Fund
<u>Assets</u>	
Cash	\$ 3,654,898
Prepaid expenses	234,408
Receivables:	
Property taxes	278,904
Sales taxes	1,278,686
Other	457,569
Total Assets	\$ 5,904,465
 <u>Liabilities</u>	
Accounts payable	\$ 105,051
Accrued expenses	469,924
Total Liabilities	574,975
 <u>Deferred Inflows of Resources</u>	
Unavailable revenue - property taxes	278,904
Unavailable revenue - grant receivable	316,228
Total Deferred Inflows of Resources	595,132
 <u>Fund Balance</u>	
Nonspendable - prepaids	234,408
Unassigned	4,499,950
Total Fund Balance	\$ 4,734,358

See Notes to Financial Statements

Montgomery County Emergency Services District 1

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET

POSITION

September 30, 2021

Total fund balance	\$	4,734,358
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Amounts reported for governmental activities in the Statement of Net Position:

Prepaid expenses within governmental funds due to paying long term debt prior to due date, and therefore reported as a prepaid expense in governmental funds, and reduction of debt in government wide statements.

Prepaid expenses - principal portion of payments		(190,341)
Prepaid expenses - interest portion of payments		(12,305)

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

Capital assets, non-depreciable		1,864,946
Capital assets, net depreciable		8,153,584

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

Property taxes receivable		278,904
Grant receivable		316,228

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		543,230
Pension investment losses (gains)		(242,308)
Pension assumptions		986,157
Pension actual vs. expected experience		770,229

capital leases, and compensated absences) and, therefore, are not reported as liabilities in the government funds

Accrued interest		(12,476)
Net pension liability		(1,484,419)
Compensated absences		(637,779)
Long term debt due in less than one year		(425,888)
Long term debt due in more than one year		(3,815,083)

Net Position of Governmental Activities	\$	10,827,037
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See Notes to Financial Statements.

Montgomery County

Emergency Services District 1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended September 30, 2021

	<u>General Fund</u>
Revenues	
Property taxes	\$ 4,750,001
Sales taxes	6,813,227
Intergovernmental	279,365
Other revenues	175,570
Contributions and donations	12,700
Investment income	6,003
Total Revenues	<u>12,036,866</u>
Expenditures	
Public safety	10,679,672
Capital outlay	1,571,292
Debt service:	
Principal	518,325
Interest	118,119
Total Expenditures	<u>12,887,408</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(850,542)</u>
Other Financing Sources (Uses)	
Debt issuance	874,390
Sale of capital assets	6,186
Total Other Financing Sources (Uses)	<u>880,576</u>
Net Change in Fund Balance	30,034
Beginning Fund Balance	<u>4,704,324</u>
Ending Fund Balance	<u>\$ 4,734,358</u>

See Notes to Financial Statements.

Montgomery County

Emergency Services District 1

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	\$	30,034
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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		1,090,336
Depreciation		(846,674)

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

Property tax receivables not collected within 60 days		(8,550)
Grant receivable not collected within 60 days		316,228

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		6,501
Pension (expense)/income		127,815
Compensated absences		143,406

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 made in current year		523,021
Loan issuance		(874,390)

		<u><u>\$ 507,727</u></u>
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See Notes to Financial Statements.

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Montgomery County ESD 1

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 ESD 1 (the "District") operates under Chapter 775, "Emergency Services Districts" of V.T.C.A, Health and Safety Code. 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, Montgomery County Emergency Services District No. 1 ("District No. 1") with Montgomery County Emergency Services District No. 12 ("District No. 12") on February 1, 2018 (the "merger date"). A new entity was formed on the merger date under the new name Montgomery County ESD 1 (the "District"), and all assets and liabilities were transferred to the new entity. The Districts No. 1 and No. 12 were discontinued upon the merger and transfer to the new entity.

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 ESD 1

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 the 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.

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

Montgomery County ESD 1

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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.

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

Montgomery County ESD 1

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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. 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 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.

3. 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 \$10,000 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.

Montgomery County ESD 1

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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

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

4. 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) 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.

5. 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.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

6. 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.

7. 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.

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.

8. Compensated Absences

The liability for compensated absences reported in the government-wide fund statements consist 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

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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.

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 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.

10. 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.

11. 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 the Fiduciary Net Position of the Texas County & District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the

Montgomery County ESD 1

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized. An unappropriated budget is prepared by fund and function. Appropriations lapse at the end of the year. Actual expenditures exceeded budgeted expenditures by \$1,091,544 for the year ended September 30, 2021.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2021, the primary government had the following investments:

Investments Type	Carrying Value	Weighted Average Maturity (Years)
External investment pools	981,387	0.10
Total carrying value	\$ 981,387	
Portfolio weighted average maturity		0.10

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 entirely insured by FDIC coverage.

The District invests in TexPool. At year end, the carrying value of TexPool investments was \$981,387. 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 are no limitations on withdraws.

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NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2021

B. Receivables

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

	General Fund
Property taxes	\$ 278,904
Sales taxes	1,278,686
Grants	457,569
Total \$	2,015,159

C. Prepaid Expenses

Prior to September 30, 2021, the District paid \$202,646 for principal and accrued interest owed on long-term lease liabilities. The payments aren't due until the following fiscal year. The modified accrual basis of accounting requires recognition of debt service expenses when the amounts are due rather than when they are paid. As a result, this amount was recorded as a prepaid expense within the governmental funds balance sheet. This balance was applied toward the principal and accrued interest balances within the government wide statement of net position based on the accrual method. The remainder of the prepaid expense of \$31,762, related to expenses paid before being incurred.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

D. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,695,911	\$ -	\$ -	\$ 1,695,911
Construction in progress	-	169,035	-	169,035
Total capital assets not being depreciated	<u>1,695,911</u>	<u>169,035</u>	<u>-</u>	<u>1,864,946</u>
Capital assets, being depreciated:				
Buildings	5,389,384	22,644	-	5,412,028
Vehicles and equipment	10,795,923	898,657	-	11,694,580
Total capital assets being depreciated	<u>16,185,307</u>	<u>921,301</u>	<u>-</u>	<u>17,106,608</u>
Less accumulated depreciation				
Buildings	(1,616,526)	(189,526)	-	(1,806,052)
Vehicles and equipment	(6,489,824)	(657,148)	-	(7,146,972)
Total accumulated depreciation	<u>(8,106,350)</u>	<u>(846,674)</u>	<u>-</u>	<u>(8,953,024)</u>
Net capital assets being depreciated	<u>8,078,957</u>	<u>74,627</u>	<u>-</u>	<u>8,153,584</u>
Total capital assets	<u>\$ 9,774,868</u>	<u>\$ 243,662</u>	<u>\$ -</u>	<u>\$ 10,018,530</u>

Depreciation expense was \$921,301 for the year ended September 30, 2021.

The book value of leased capital assets as of September 30, 2021 was \$1,729,407.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

E. Long-Term Obligations

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

Description	Beginning Balances	Increases	Decreases	Ending Balances	Due within a year
Houston Community Bank lease - 2 trucks through 2023, interest at 2.03%	\$ 254,014	\$ -	\$ (123,162)	\$ 130,852	\$ -
US Bank lease - Truck through 2024, interest at 2.58%	268,941	-	(64,612)	204,329	-
First Financial note - fire station through 2033, interest at 3.00%	928,619	-	(62,809)	865,810	64,631
First Financial note - fire station through 2033, interest at 2.88%	1,556,928	-	(107,297)	1,449,631	109,923
Signature Public Funding Corp. - Fire Truck through 2025, interest at 3.24%	881,100	-	(165,141)	715,959	170,504
First Financial note - airpacks through 2031, interest at 1.75%	-	874,390	-	874,390	80,830
	<u>\$ 3,889,602</u>	<u>\$ 874,390</u>	<u>\$ (523,021)</u>	<u>\$ 4,240,971</u>	<u>\$ 425,888</u>
			Due in more than one year	<u>\$ 3,815,083</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.

All leases and notes are secured by the underlying assets being leased or purchased with the note proceeds. In the potential event the City is unable to make payments as scheduled, forfeiture of the assets being leased or used as collateral could be a potential remedy taken by the lessor/lendor.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

The annual requirements to amortize capital leases outstanding as of September 30, 2021 were as follows:

Year ending September 30,	Houston Community Bank		Signature Public Funding Corp.		US Bank		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ -	\$ 2,603	\$ 170,504	\$ 23,246	\$ -	\$ -	\$ 170,504	\$ 25,849
2023	130,852	-	176,040	17,710	66,330	5,434	373,222	23,144
2024	-	-	181,756	11,994	68,094	3,670	249,850	15,664
2025	-	-	187,659	6,093	69,905	1,859	257,564	7,952
Total	\$ 130,852	\$ 2,603	\$ 715,959	\$ 59,043	\$ 204,329	\$ 10,963	\$ 1,051,140	\$ 72,609

The annual requirements to amortize the notes payable outstanding at September 30, 2021 were as follows:

Year ending September 30,	First Financial Bank	
	Principal	Interest
2022	\$ 255,384	\$ 74,088
2023	261,285	68,187
2024	267,281	62,191
2025	273,691	55,781
2026	280,122	49,350
2027	286,710	42,762
2028	293,380	36,092
2029	300,369	29,103
2030	307,450	22,022
2031	314,603	14,769
2032	226,002	7,776
2033	123,554	1,676
Total	\$ 3,189,831	\$ 463,797

F. Other Long-term Liabilities

The following is a summary of changes in the District's other long-term liabilities for the year ended September 30, 2021. 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	\$ 781,185	\$ -	\$ (143,406)	\$ 637,779	\$ 574,001
Total Governmental Activities	\$ 781,185	\$ -	\$ (143,406)	\$ 637,779	\$ 574,001

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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, recent claim settlement trends, including frequency and amounts 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 782 nontraditional defined contribution benefit plans. TCDRS, in the aggregate, issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR 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

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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.

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 10.05% for calendar year 2021 and 9.97% for calendar year 2020.

The District adopted the rate of 7% 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.

4. Contributions

Fiscal years ended 9/30:	<u>9/30/2021</u>	<u>9/30/2020</u>	<u>9/30/2019</u>
Annual Determined Contribution Cost	\$ 735,250	\$ 610,719	\$ 568,162
Actual Contributions Made	\$ (735,250)	\$ (610,719)	\$ (568,162)
Percentage of APC Made	100%	100%	100%
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The required contribution rates for fiscal year 2021 were determined as part of the December 31, 2019 and 2020 actuarial valuations.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

Additional information as of the latest actuarial valuation, December 31, 2020, 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	17.6 years	16.8 years	20 years
Asset Valuation Method	5-year Smoothed Fund	5-year Smoothed Fund	5-year Smoothed Fund
Actuarial Assumptions:			
Investment Rate of Return *	8%	8%	7.50%
Projected Salary Increases *	4.9%	4.9%	4.6%
* 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	2
Inactive employees entitled to but not yet receiving benefits	96
Active employees	97
Total	195

5. Net Pension Liability

The District's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

Actuarial assumptions:

The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	0 - 5% per year depending on experience
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2014 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 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.

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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	11.50%	4.25%
Global Equities	MSCI World (net) Index	2.50%	4.55%
International Equities – Developed Markets	MSCI World Ex USA (net)	5.00%	4.25%
International Equities – Emerging	MSCI Emerging Markets (net)	6.00%	4.75%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.85%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	2.11%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.70%
Distressed Debt	Cambridge Associates Distressed Securities Index (4)	4.00%	5.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	3.45%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.10%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (4)	6.00%	4.90%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index(5)	25.00%	7.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	1.85%
Cash Equivalents	90-Day US Treasury	2.00%	-0.70%

(1) Target asset allocation adopted at the March 2021 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 2.0%, per Cliffwater’s 2021 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.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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.

Changes in the Net Pension Liability:

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
Balance at 12/31/19	\$ 9,090,829	\$ 8,703,955	\$ 386,874
Changes for the year:			
Service Cost	805,012	-	805,012
Interest on total pension liability ⁽¹⁾	799,781	-	799,781
Effect of economic/demographic gains or losses	484,267	-	484,267
Effect of assumptions changes or inputs	1,068,475	-	-
Benefit payments	(44,880)	(44,880)	-
Administrative expense	-	(7,843)	7,843
Member contributions	-	467,503	(467,503)
Net investment income (loss)	-	901,401	(901,401)
Employer contributions	-	665,857	(665,857)
Other ⁽²⁾	-	33,072	(33,072)
Net changes	3,112,655	2,015,110	1,097,545
Balance at 12/31/20	<u>\$ 12,203,484</u>	<u>\$ 10,719,065</u>	<u>\$ 1,484,419</u>

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

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

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.60%) or 1 percentage point higher (9.10%) than the current rate:

1% Decrease 6.60%	Current Single Rate Assumption 7.60%	1% Increase 8.60%
\$ 4,112,811	\$ 1,484,419	\$ (616,961)

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.

6. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Pension expense recognized for the year ended September 30, 2021 was \$607,433.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual economic experience	\$ 770,229	\$ -
Changes of assumptions	986,157	-
Differences between projected and investment earnings	-	(242,308)
Contributions subsequent to the measurement date	543,230	-
Total	\$ 2,299,616	\$ (242,308)

The District reported \$543,230 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.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

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	\$ 234,997
2022	290,718
2023	159,328
2024	278,036
2025	299,578
Thereafter	251,421
	\$ 1,514,078

D. Operating Lease

The District entered into an operating lease agreement for their administrative headquarters. The lease term is from February 1, 2017 through January 31, 2022. Monthly rent expense is \$6,500 for years 1 through 3, and \$7,000 for years 4 and 5.

Future minimum payments for the lease as of September 30, 2021 were as follows:

Year ending September 30,	Amount
2022	\$ 28,000
2023	-
2024	-
2025	-
2026	-
Thereafter	-
Total	\$ 28,000

E. Related Party Transactions

The District office administrator's husband owns Cowboy A/C & Heating, LLC that provided equipment and services to the District during the year totaling \$9,770.

F. Subsequent Events

There were no material subsequent events outside of typical operations through April 19, 2021, 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 1

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended September 30, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 4,718,000	\$ 4,718,000	\$ 4,750,001	\$ 32,001
Sales tax	6,950,000	6,950,000	6,813,227	(136,773)
Intergovernmental	-	-	279,365	279,365
Other revenues	50,400	175,648	175,570	(78)
Contributions and donations	-	10,000	12,700	2,700
Investment earnings	35,000	35,000	6,003	(28,997)
Total Revenues	11,753,400	11,888,648	12,036,866	148,218
Expenditures				
Public safety	10,060,615	10,092,916	10,679,672	(586,756)
Capital outlay	905,500	1,066,505	1,571,292	(504,787)
Debt service - principal	592,952	518,325	518,325	-
Debt service - interest	144,491	118,118	118,119	(1)
Total Expenditures	11,703,558	11,795,864	12,887,408	(1,091,544) *
Revenues Over (Under)				
Expenditures	49,842	92,784	(850,542)	(943,326)
Other Financing Sources				
Sale of capital assets	-	-	6,186	6,186
Debt issuance	-	-	874,390	874,390
Sources	-	-	880,576	880,576
Net Change in Fund Balance	\$ 49,842	\$ 92,784	30,034	\$ (62,750)
Beginning Fund Balance			4,704,324	
Ending Fund Balance			\$ 4,734,358	

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 1

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended

	12/31/2020	12/31/2019	12/31/2018
Total pension liability			
Service cost	\$ 805,012	\$ 773,733	\$ 559,686
Interest (on the Total Pension Liability)	799,781	664,613	532,859
Changes in benefit terms	-	-	-
Differences between expected and actual experience	484,267	233,904	385,247
Changes of assumptions	1,068,475	-	-
Benefit payments, including refunds of participant contributions	(44,880)	(25,089)	(103,874)
Net change in total pension liability	3,112,655	1,647,161	1,373,918
Total pension liability - beginning	9,090,828	7,443,667	6,069,749
Total pension liability - ending (a)	\$ 12,203,483	\$ 9,090,828	\$ 7,443,667
Plan fiduciary net position			
Contributions - employer	\$ 665,857	\$ 545,827	\$ 603,815
Contributions - members	467,503	386,721	340,315
Net investment income (loss)	901,401	1,095,331	(100,826)
Benefit payments, including refunds of participant contributions	(44,880)	(25,089)	(103,874)
Administrative expenses	(7,843)	(6,633)	(5,362)
Other	33,072	32,281	25,627
Net change in plan fiduciary net position	2,015,110	2,028,438	759,695
Plan fiduciary net position - beginning	8,703,954	6,675,516	5,915,821
Plan fiduciary net position - ending (b)	\$ 10,719,064	\$ 8,703,954	\$ 6,675,516
Fund's net pension liability - ending (a) - (b)	\$ 1,484,419	\$ 386,874	\$ 768,151
 Plan fiduciary net position as a percentage of the total pension liability	 87.84%	 95.74%	 89.68%
Covered payroll	\$ 6,678,615	\$ 5,524,579	\$ 4,861,649
Fund's net position as a percentage of covered payroll	22.23%	7.00%	15.80%

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>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u> ¹
\$ 646,050	\$ 496,455	\$ 445,499	\$ 405,612
449,975	349,077	302,270	245,883
-	-	(104,684)	-
(64,041)	4,007	(145,010)	76,984
135,145	-	8,246	-
(12,900)	(421)	(1,016)	(8,070)
<u>1,154,229</u>	<u>849,118</u>	<u>505,305</u>	<u>720,409</u>
<u>4,915,520</u>	<u>4,066,402</u>	<u>3,561,097</u>	<u>2,840,688</u>
<u>\$ 6,069,749</u>	<u>\$ 4,915,520</u>	<u>\$ 4,066,402</u>	<u>\$ 3,561,097</u>
\$ 453,742	\$ 388,339	\$ 331,629	\$ 289,924
251,679	217,298	182,789	166,762
674,351	271,044	(62,673)	174,685
(12,900)	(421)	(1,016)	(8,070)
(3,934)	(2,947)	(2,472)	(2,222)
9,244	49,824	(296)	(160)
<u>1,372,182</u>	<u>923,137</u>	<u>447,961</u>	<u>620,919</u>
<u>4,543,639</u>	<u>3,620,502</u>	<u>3,172,541</u>	<u>2,551,622</u>
<u>\$ 5,915,821</u>	<u>\$ 4,543,639</u>	<u>\$ 3,620,502</u>	<u>\$ 3,172,541</u>
<u>\$ 153,928</u>	<u>\$ 371,881</u>	<u>\$ 445,900</u>	<u>\$ 388,556</u>
97.46%	92.43%	89.03%	89.09%
\$ 3,595,412	\$ 3,104,251	\$ 2,797,748	\$ 2,382,319
4.28%	11.98%	15.94%	16.31%

Montgomery County Emergency Services District 1

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended

	<u>9/30/2021</u>	<u>9/30/2020</u>	<u>9/30/2019</u>
Actuarially determined employer contributions	\$ 735,250	\$ 610,719	\$ 568,162
Contributions in relation to the actuarially determined cont.	\$ 735,250	\$ 610,719	\$ 568,162
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Annual covered employee payroll	\$ 6,138,496	\$ 6,138,496	\$ 5,420,978
Employer contributions as a % of covered employee payroll	11.98%	9.95%	10.48%

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.

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 Normal
Amortization Method	Level Percentage of Payroll, Closed
Amortization Period	20.0 years
Asset Valuation Method	5 years, smoothed value
Inflation	2.50%
Salary Increases	4.6%
Investment Rate of Return	7.5%
Retirement 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 There were no benefit changes during the year.

<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u> ¹
\$ 556,075	\$ 459,901	\$ 351,203	\$ 319,382
<u>\$ 556,075</u>	<u>\$ 459,901</u>	<u>\$ 351,203</u>	<u>\$ 319,382</u>
\$ -	\$ -	\$ -	\$ -
\$ 4,463,026	\$ 3,652,421	\$ 2,797,748	\$ 2,538,233
12.46%	12.59%	12.55%	12.58%

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