

ANNUAL FINANCIAL REPORT

of the

Montgomery County ESD 1

As of September 30, 2023

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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 Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the general fund of Montgomery County ESD 1 (the "District") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Montgomery County ESD 1, as of September 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Montgomery County ESD 1 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules and budgetary comparison information for the general fund 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.



Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
May 14, 2024

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

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Montgomery County ESD 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the Montgomery County ESD 1 (the "District") for the year ended September 30, 2023. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

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

Government-Wide Statements

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

The Statement of Net Position 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2023

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.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2023

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 and deferred outflows exceeded liabilities by \$13,961,031 as of yearend. Unrestricted net position, \$6,789,824, may be used to meet the District's ongoing emergency service operations.

Statement of Net Position:

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

	Governmental Activities	
	2023	2022
Current and other assets	\$ 15,750,527	\$ 16,126,079
Capital assets, net	14,536,193	10,717,360
Total Assets	30,286,720	26,843,439
Deferred Outflows of Resources	3,139,478	2,602,800
Other liabilities	3,336,169	2,674,673
Long-term liabilities	16,128,998	13,068,194
Total Liabilities	19,465,167	15,742,867
Deferred Inflows of Resources	-	1,478,365
Net Position:		
Net investment in capital assets	7,171,207	5,981,977
Unrestricted	6,789,824	6,243,030
Total Net Position	\$ 13,961,031	\$ 12,225,007

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2023

Statement of Activities:

The following table provides a summary of the District's changes in net position for the years ended September 30, 2023 and 2022.

	Governmental Activities	
	2023	2022
Revenues		
Property taxes	\$ 6,638,282	\$ 5,439,616
Sales taxes	10,060,427	8,607,145
Other	63,376	48,200
Operating grants	530,931	438,819
Contributions and donations	200	500
Investment income	679,441	79,377
Total Revenues	17,972,657	14,613,657
Expenses		
Administration	3,018,609	1,824,154
Salaries and benefits	11,767,550	10,326,962
Depreciation	947,922	921,933
Interest	502,552	142,638
Total Expenses	16,236,633	13,215,687
Change in Net Position	1,736,024	1,397,970
Beginning Net Position	12,225,007	10,827,037
Change in Net Position	\$ 13,961,031	\$ 12,225,007

The District reported an increase in overall net position of \$1,736,024 compared to the prior year. The increase was primarily due to the District's increased property and sales taxes and investment income received in the current year. Property taxes increased due to an increase in property values, and development in the area. Sales taxes increased due to an increase in economic activity in the local economy, and investment income increased due to an increase in interest rates. Expenses increased primarily as a result of greater salaries/benefits, interest expense, nonrecurring training expenses and auto repairs/maintenance 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.

Montgomery County ESD 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2023

Governmental Funds – The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the year. The unassigned fund balance was \$6,436,320 or approximately 30% of annual expenditures.

The District's general fund reflects a fund balance of \$14,305,805. There was a decrease in the fund balance of \$684,002 compared to the prior year. This decrease was primarily due to current year expenditures exceeding revenues.

CAPITAL ASSETS

As of the end of the year, the District had invested \$14,536,193 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 3.80 acres on Kennedy St. for \$699,729.
- The District purchased new vehicles and equipment totaling \$2,002,441.
- Construction in progress for new logistics facility for \$1,637,962.
- Construction in progress for fire training complex for \$372,350.

LONG-TERM DEBT

The total long-term debt outstanding at the close of the year was \$15,130,945. During the year, the District issued new debt totaling \$2,511,279 and made principal payments amounting to \$934,432, resulting in a net increase to debt during the year of \$1,576,847.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were over the final budgeted revenues by \$1,017,275 during the year. Actual general fund expenditures were over the final budget by \$1,893,159, primarily due to public safety and capital outlay expenditures being over budget. Other financing sources were under budget by \$2,511,279. These variances were the primary reason for a positive overall budget variance of \$1,635,395.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND CONTACTING MANAGEMENT

The District is located in Montgomery County, Texas. The District's appointed officials and citizens considered many factors when setting the 2024 fiscal year budget. The economy, employment growth, traffic patterns, and other factors were all a part of their considerations.

Montgomery County ESD 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2023

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

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STATEMENT OF NET POSITION (Page 1 of 2)

September 30, 2023

	Governmental Activities
<u>Assets</u>	
Current Assets	
Cash	\$ 13,435,181
Prepaid expenses	31,762
Receivables:	
Property taxes	343,329
Sales taxes	1,924,343
Other	15,912
Total Current Assets	15,750,527
Non-Current Assets	
Capital assets, net of accumulated depreciation	
Capital assets - non-depreciable	2,767,990
Capital assets - net depreciable	11,768,203
Total Non-Current Assets	14,536,193
Total Assets	30,286,720
Deferred Outflows of Resources	
Pension contributions	886,908
Pension actual vs. expected experience	841,473
Pension investment losses	536,688
Pension assumptions	874,409
Total Deferred Outflows of Resources	\$ 3,139,478

See notes to Financial Statements

Montgomery County

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STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2023

	<u>Governmental Activities</u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	\$ 404,287
Accrued expenses	906,583
Compensated absences, current	759,174
Current portion of long-term debt	1,266,125
Total Current Liabilities	<u>3,336,169</u>
Long-Term Liabilities	
Net pension liability	2,179,825
Compensated absences, noncurrent	84,353
Long-term debt due in more than one year	13,864,820
Total Liabilities	<u><u>19,465,167</u></u>
<u>Net Position</u>	
Net investment in capital assets	7,171,207
Unrestricted	6,789,824
Total Net Position	<u><u>\$ 13,961,031</u></u>

See Notes to Financial Statements.

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STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2023

	<u>Governmental Activities</u>
<u>Expenses</u>	
Public safety - fire protection	
Administration	\$ 3,018,609
Salaries and benefits	11,767,550
Depreciation	947,922
Interest	502,552
Total Program Expenses	<u>16,236,633</u>
 <u>Program Revenues</u>	
Operating grants	530,931
Contributions and donations	200
Total Program Revenues	<u>531,131</u>
 <u>General Revenues</u>	
Property taxes	6,638,282
Sales taxes	10,060,427
Other revenues	63,376
Investment income	679,441
Total General Revenues	<u>17,441,526</u>
 Change in Net Position	 <u>1,736,024</u>
 Beginning Net Position	 <u>12,225,007</u>
 Ending Net Position	 <u><u>\$ 13,961,031</u></u>

See Notes to Financial Statements.

Montgomery County ESD 1

BALANCE SHEET
September 30, 2023

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 13,435,181
Prepaid expenses	103,526
Receivables:	
Property taxes	343,329
Sales taxes	1,924,343
Other	15,912
Total Assets	\$ 15,822,291
<u>Liabilities</u>	
Accounts payable	\$ 404,287
Accrued expenses	768,870
Total Liabilities	1,173,157
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - property taxes	343,329
Total Deferred Inflows of Resources	343,329
<u>Fund Balance</u>	
Nonspendable - prepaids	103,526
Restricted for capital projects	7,765,959
Unassigned	6,436,320
Total Fund Balance	\$ 14,305,805

See Notes to Financial Statements

Montgomery County ESD 1

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2023

Total fund balance	\$ 14,305,805
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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	(68,094)
Prepaid expenses - interest portion of payments	(3,670)

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

Capital assets, non-depreciable	2,767,990
Capital assets, net depreciable	11,768,203

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

Property taxes receivable	343,329
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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	886,908
Pension investment losses (gains)	536,688
Pension assumptions	874,409
Pension actual vs. expected experience	841,473

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides 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. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities.

Accrued interest	(137,713)
Net pension liability	(2,179,825)
Compensated absences	(843,527)
Long term debt due in less than one year	(1,266,125)
Long term debt due in more than one year	(13,864,820)

Net Position of Governmental Activities	\$ 13,961,031
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See Notes to Financial Statements.

Montgomery County

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended September 30, 2023

	General Fund
Revenues	
Property taxes	\$ 6,588,999
Sales taxes	10,060,427
Intergovernmental	530,931
Other revenues	53,721
Contributions and donations	200
Investment income	679,441
Total Revenues	17,913,719
Expenditures	
Public safety	13,731,472
Capital outlay	5,845,554
Debt service:	
Principal	1,129,872
Interest	411,757
Total Expenditures	21,118,655
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,204,936)
Other Financing Sources (Uses)	
Sale of assets	9,655
Debt issuances	2,511,279
Total Other Financing Sources (Uses)	2,520,934
Net Change in Fund Balance	(684,002)
Beginning Fund Balance	14,989,807
Ending Fund Balance	\$ 14,305,805

See Notes to Financial Statements.

Montgomery County

ESD 1

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

For the Year Ended September 30, 2023

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

Net change in fund balance	\$	(684,002)
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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	4,766,755
Depreciation	(947,922)

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	49,283
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest	104,645
Pension (expense)/income	200,815
Compensated absences	(176,703)

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	934,432
Loan issuance	(2,511,279)

Change in Net Position	\$	<u>1,736,024</u>
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See Notes to Financial Statements.

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Montgomery County ESD 1

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Montgomery County 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, 2023

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, 2023

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, 2023

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.

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.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

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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, 2023

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, 2023

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

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2023

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.

12. Leases

When the District enters into a lease that does not transfer ownership at the end of the lease they recognize a lease liability and intangible right-to-use lease assets in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

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

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and, if applicable, the purchase option price that the District is reasonably certain to exercise.

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

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2023

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. During the year ended September 30, 2023, general fund expenditures exceeded appropriations at the legal level of control by \$1,893,159.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2023

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2023, the primary government had the following investments:

Investments Type	Value	Weighted Average Maturity (Years)
External investment pools	\$ 4,463	0.08
Total	\$ 4,463	
Portfolio weighted average maturity		0.08

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, 2023, checking deposits were entirely insured by FDIC coverage.

The District invests in TexPool. At year end, the carrying value of TexPool investments was \$4,463. 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

Montgomery County ESD 1
NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2023

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.

B. Receivables

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

	General Fund
Property taxes	\$ 343,329
Sales taxes	1,924,343
Other	15,912
Total	\$ 2,283,584

C. Prepaid Expenses

Prior to September 30, 2023, the District paid \$71,764 for principal and accrued interest owed on long-term 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, 2023

D. Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2023:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,695,911	\$ 699,729	\$ -	\$ 2,395,640
Construction in progress	1,620,333	2,010,311	(3,258,294)	372,350
Total capital assets not being depreciated	<u>3,316,244</u>	<u>2,710,040</u>	<u>(3,258,294)</u>	<u>2,767,990</u>
Capital assets, being depreciated:				
Buildings	5,460,580	54,275	3,258,294	8,773,149
Vehicles and equipment	11,815,493	2,002,440	(46,451)	13,771,482
Total capital assets being depreciated	<u>17,276,073</u>	<u>2,056,715</u>	<u>3,211,843</u>	<u>22,544,631</u>
Less accumulated depreciation				
Buildings	(1,992,993)	(211,686)	-	(2,204,679)
Vehicles and equipment	(7,881,964)	(736,236)	46,451	(8,571,749)
Total accumulated depreciation	<u>(9,874,957)</u>	<u>(947,922)</u>	<u>46,451</u>	<u>(10,776,428)</u>
Net capital assets being depreciated	<u>7,401,116</u>	<u>1,108,793</u>	<u>3,258,294</u>	<u>11,768,203</u>
Total capital assets	<u><u>\$ 10,717,360</u></u>	<u><u>\$ 3,818,833</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 14,536,193</u></u>

Depreciation expense was \$947,922 for the year ended September 30, 2023.

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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2023

E. Long-Term Obligations

The following is a summary of long-term obligations for the year ended September 30, 2023:

Description	Beginning Balances	Increases	Decreases	Ending Balances	Due within a year
Houston Community Bank note - 2 trucks through 2023, interest at 2.03%	\$ 5,123	\$ -	\$ (5,123)	\$ -	\$ -
US Bank note - Truck through 2024, interest at 2.58%	137,999	-	(68,094)	69,905	-
First Financial note - fire station through 2033, interest at 3.00%	801,179	-	(66,506)	734,673	68,379
First Financial note - fire station through 2033, interest at 2.88%	1,339,708	-	(110,655)	1,229,053	115,293
Signature Public Funding Corp. - Fire Truck through 2025, interest at 3.24%	545,455	-	(176,040)	369,415	181,756
First Financial note - airpacks through 2031, interest at 1.75%	793,560	-	(82,165)	711,395	83,609
First Financial note - logistics building through 2042, interest at 3.51%	2,931,074	-	(54,059)	2,877,015	110,982
Government Capital note - fire station through 2037, interest at 3.14%	7,000,000	-	(371,790)	6,628,210	383,564
First Financial note - Tankers through 2030, interest at 3.95%	-	2,511,279	-	2,511,279	322,542
	<u>\$ 13,554,098</u>	<u>\$ 2,511,279</u>	<u>\$ (934,432)</u>	<u>\$ 15,130,945</u>	<u>\$ 1,266,125</u>
				<u>Due in more than one year</u>	<u>\$ 13,864,820</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 notes are secured by the underlying assets being leased or purchased with the note proceeds. In the potential event the District 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 lender.

Montgomery County ESD 1
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2023

During the year ended September 30, 2023, the District issued notes payable of \$2,511,279 to finance the purchase of Rosenbauer tankers. The note bears interest of 3.95% through the maturity date of November 2030.

The annual requirements to amortize the notes payable outstanding at September 30, 2023 were as follows:

Year ending September 30,	Principal	Interest
2024	\$ 1,266,125	\$ 459,939
2025	1,302,039	421,782
2026	1,150,579	379,094
2027	1,187,999	341,265
2028	1,233,432	309,169
2029	1,266,677	275,924
2030	1,308,026	234,576
2031	933,298	195,906
2032	864,819	168,792
2033	781,185	141,914
2034	681,049	118,783
2035	703,204	96,628
2036	726,081	73,751
2037	749,704	50,128
2038	180,639	30,360
2039	187,036	23,964
2040	193,658	17,341
2041	200,515	10,484
2042	214,880	3,385
Total	\$ 15,130,945	\$ 3,353,185

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NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2023

F. Other Long-term Liabilities

The following is a summary of changes in the District's other long-term liabilities for the year ended September 30, 2023. The District uses the general fund to liquidate compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Compensated Absences	\$ 666,824	\$ 176,703	\$ -	\$ 843,527	\$ 759,174
Total Governmental Activities	<u>\$ 666,824</u>	<u>\$ 176,703</u>	<u>\$ -</u>	<u>\$ 843,527</u>	<u>\$ 759,174</u>
Long-term Liabilities Due in More than One Year				<u>\$ 84,353</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, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2023

C. Defined Benefit Pension Plan

1. Plan Description

The District provides retirement, disability, and death benefits for all its eligible employees through a nontraditional defined benefit pension plan in the statewide Texas County & District Retirement System (“TCDRS”). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 782 nontraditional defined contribution benefit plans. TCERS, in the aggregate, issues a comprehensive annual financial report (“ACFR”) on a calendar year basis. The ACFR is available upon written request from the TCERS 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 TCERS (TCERS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

3. Funding Policy

The District has elected the annually determined contribution rate (ADCR) plan provisions of the TCERS 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 TCERS Act, the contribution rate of the employer is actuarially determined annually.

The District contributed using the ADCR of 12.83% for calendar year 2023 and 13.18% for calendar year 2022.

Montgomery County ESD 1

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2023

The District adopted the rate of 7% as the contribution rate payable by the employee members for calendar years 2023 & 2022. 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>9/30/2023</u>	<u>9/30/2022</u>	<u>9/30/2021</u>
Annual Determined Contribution Cost	\$ 1,165,782	\$ 969,055	\$ 735,250
Actual Contributions Made	\$ (1,165,782)	\$ (969,055)	\$ (735,250)
Percentage of ADCC 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 2023 were determined as part of the December 31, 2021 and 2022 actuarial valuations.

Additional information as of the latest actuarial valuation, December 31, 2022, also follows:

Valuation Date	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent of payroll, closed	Level Percent of payroll, closed	Level Percent of payroll, closed
Amortization Period in years	20 years	19.1 years	18.4 years
Asset Valuation Method	5-year Smoothed Fund	5-year Smoothed Fund	5-year Smoothed Fund
Actuarial Assumptions:			
Investment Rate of Return *	7.50%	7.50%	7.50%
Projected Salary Increases *	4.6%	4.7%	2.3%
* Includes Inflation at stated-rate	2.50%	2.50%	2.50%
Cost-of Living Adjustments	0.0%	n/a	n/a

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NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2023

Employees covered by benefit terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	112
Active employees	105
Total	221

5. Net Pension Liability

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

Actuarial assumptions:

The Total Pension Liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	4.7% average per year, varies by age and service
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 RP2000 Combined Healthy Mortality Table.

Actuarial assumptions used in the December 31, 2022, valuation were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 7.50% 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.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2023

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.

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

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.95%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	7.95%
Global Equities	MSCI World (net) Index	2.50%	4.95%
International Equities – Developed	MSCI World Ex USA (net) Index	5.00%	4.95%
International Equities – Emerging	MSCI Emerging Markets (net) Index	6.00%	4.95%
Investment - Grade Bonds	Bloomberg U.S. Aggregate Bond Index	3.00%	2.40%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.25%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	7.60%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	5.70%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash Equivalents	90-day U.S. Treasury	2.00%	0.20%

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2023

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:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/21	\$ 14,757,358	\$ 14,391,761	\$ 365,597
Changes for the year:			
Service Cost	1,157,697	-	1,157,697
Interest on total pension liability ⁽¹⁾	1,196,180	-	1,196,180
Effect of economic/demographic gains or losses	301,138	-	301,138
Effect of assumptions changes or inputs	-	-	-
Benefit payments and refunds	(358,254)	(358,254)	-
Administrative expense	-	(8,717)	8,717
Member contributions	-	559,018	(559,018)
Net investment income (loss)	-	(950,548)	950,548
Employer contributions	-	1,052,551	(1,052,551)
Other ⁽²⁾	-	188,483	(188,483)
Net changes	2,296,761	482,533	1,814,228
Balance at 12/31/22	\$ 17,054,119	\$ 14,874,294	\$ 2,179,825

(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.

Montgomery County ESD 1
NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2023

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 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%
\$ 5,897,334	\$ 2,179,825	\$ (789,144)

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, 2023 was \$964,964.

At September 30, 2023, the District reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual economic experience	\$ 841,473
Changes of assumptions	874,409
Differences between projected and investment earnings	536,688
Contributions subsequent to the measurement date	886,908
Total	\$ 3,139,478

The District reported \$886,908 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, 2024.

Montgomery County ESD 1

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2023

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2023	\$ 365,716
2024	484,425
2025	505,965
2026	783,538
2027	37,642
Thereafter	75,284
	\$ 2,252,570

D. Office Lease

The District entered into an operating lease agreement for their administrative headquarters in 2017. The lease term was from February 1, 2017 through January 31, 2022. Since this date the lease has continued on a month to month basis. Monthly rent expense is \$7,000.

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 \$12,885.

F. Subsequent Events

There were no material subsequent events outside of typical operations through May 14, 2024, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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Montgomery County

ESD 1

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended September 30, 2023

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 6,547,560	\$ 6,547,560	\$ 6,588,999	\$ 41,439
Sales tax	8,350,000	9,900,000	10,060,427	160,427
Intergovernmental	-	48,290	530,931	482,641
Other revenues	50,400	50,444	53,721	3,277
Contributions and donations	-	-	200	200
Investment earnings	60,100	350,150	679,441	329,291
Total Revenues	<u>15,008,060</u>	<u>16,896,444</u>	<u>17,913,719</u>	<u>1,017,275</u>
Expenditures				
Public safety	12,115,849	13,593,233	13,731,472	(138,239)
Capital outlay	3,825,000	3,959,000	5,845,554	(1,886,554)
Debt service - principal	964,814	1,250,988	1,129,872	121,116
Debt service - interest	422,275	422,275	411,757	10,518
Total Expenditures	<u>17,327,938</u>	<u>19,225,496</u>	<u>21,118,655</u>	<u>(1,893,159) *</u>
Revenues Over (Under) Expenditures	<u>(2,319,878)</u>	<u>(2,329,052)</u>	<u>(3,204,936)</u>	<u>(875,884)</u>
Other Financing Sources				
Sale of assets	-	9,655	9,655	-
Debt issuances	-	-	2,511,279	2,511,279
Total Other Financing Sources	<u>-</u>	<u>9,655</u>	<u>2,520,934</u>	<u>2,511,279</u>
Net Change in Fund Balance	<u>\$ (2,319,878)</u>	<u>\$ (2,319,397)</u>	<u>(684,002)</u>	<u>\$ 1,635,395</u>
Beginning Fund Balance			<u>14,989,807</u>	
Ending Fund Balance			<u>\$ 14,305,805</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 ESD 1

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS Years Ended

	<u>12/31/2022</u>	<u>12/31/2021</u>	<u>12/31/2020</u>
Total pension liability			
Service cost	\$ 1,157,697	\$ 1,186,194	\$ 805,012
Interest (on the Total Pension Liability)	1,196,180	1,014,041	799,781
Changes in benefit terms	-	-	-
Differences between expected and actual experience	301,138	105,749	484,267
Changes of assumptions	-	343,724	1,068,475
Benefit payments, including refunds of participant contributions	(358,254)	(95,833)	(44,880)
Net change in total pension liability	<u>2,296,761</u>	<u>2,553,875</u>	<u>3,112,655</u>
Total pension liability - beginning	<u>14,757,358</u>	<u>12,203,483</u>	<u>9,090,828</u>
Total pension liability - ending (a)	<u>\$ 17,054,119</u>	<u>\$ 14,757,358</u>	<u>\$ 12,203,483</u>
Plan fiduciary net position			
Contributions - employer	\$ 1,052,551	\$ 738,635	\$ 665,857
Contributions - members	559,018	514,473	467,503
Net investment income (loss)	(950,548)	2,487,469	901,401
Benefit payments, including refunds of participant contributions	(358,254)	(95,833)	(44,880)
Administrative expenses	(8,717)	(7,786)	(7,843)
Other	188,483	35,739	33,072
Net change in plan fiduciary net position	<u>482,533</u>	<u>3,672,697</u>	<u>2,015,110</u>
Plan fiduciary net position - beginning	<u>14,391,761</u>	<u>10,719,064</u>	<u>8,703,954</u>
Plan fiduciary net position - ending (b)	<u>\$ 14,874,294</u>	<u>\$ 14,391,761</u>	<u>\$ 10,719,064</u>
Fund's net pension liability - ending (a) - (b)	<u>\$ 2,179,825</u>	<u>\$ 365,597</u>	<u>\$ 1,484,419</u>
Plan fiduciary net position as a percentage of the total pension liability	87.22%	97.52%	87.84%
Covered payroll	\$ 7,985,967	\$ 7,349,612	\$ 6,678,615
Fund's net position as a percentage of covered payroll	27.30%	4.97%	22.23%

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>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	¹
\$ 773,733	\$ 559,686	\$ 646,050	\$ 496,455	\$ 445,499	\$ 405,612	
664,613	532,859	449,975	349,077	302,270	245,883	
-	-	-	-	(104,684)	-	
233,904	385,247	(64,041)	4,007	(145,010)	76,984	
-	-	135,145	-	8,246	-	
(25,089)	(103,874)	(12,900)	(421)	(1,016)	(8,070)	
<u>1,647,161</u>	<u>1,373,918</u>	<u>1,154,229</u>	<u>849,118</u>	<u>505,305</u>	<u>720,409</u>	
<u>7,443,667</u>	<u>6,069,749</u>	<u>4,915,520</u>	<u>4,066,402</u>	<u>3,561,097</u>	<u>2,840,688</u>	
<u>\$ 9,090,828</u>	<u>\$ 7,443,667</u>	<u>\$ 6,069,749</u>	<u>\$ 4,915,520</u>	<u>\$ 4,066,402</u>	<u>\$ 3,561,097</u>	
\$ 545,827	\$ 603,815	\$ 453,742	\$ 388,339	\$ 331,629	\$ 289,924	
386,721	340,315	251,679	217,298	182,789	166,762	
1,095,331	(100,826)	674,351	271,044	(62,673)	174,685	
(25,089)	(103,874)	(12,900)	(421)	(1,016)	(8,070)	
(6,633)	(5,362)	(3,934)	(2,947)	(2,472)	(2,222)	
32,281	25,627	9,244	49,824	(296)	(160)	
<u>2,028,438</u>	<u>759,695</u>	<u>1,372,182</u>	<u>923,137</u>	<u>447,961</u>	<u>620,919</u>	
<u>6,675,516</u>	<u>5,915,821</u>	<u>4,543,639</u>	<u>3,620,502</u>	<u>3,172,541</u>	<u>2,551,622</u>	
<u>\$ 8,703,954</u>	<u>\$ 6,675,516</u>	<u>\$ 5,915,821</u>	<u>\$ 4,543,639</u>	<u>\$ 3,620,502</u>	<u>\$ 3,172,541</u>	
<u>\$ 386,874</u>	<u>\$ 768,151</u>	<u>\$ 153,928</u>	<u>\$ 371,881</u>	<u>\$ 445,900</u>	<u>\$ 388,556</u>	
95.74%	89.68%	97.46%	92.43%	89.03%	89.09%	
\$ 5,524,579	\$ 4,861,649	\$ 3,595,412	\$ 3,104,251	\$ 2,797,748	\$ 2,382,319	
7.00%	15.80%	4.28%	11.98%	15.94%	16.31%	

Montgomery County ESD 1

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended

	<u>9/30/2023</u>	<u>9/30/2022</u>	<u>9/30/2021</u>
Actuarially determined employer contributions	\$ 1,165,782	\$ 969,055	\$ 735,250
Contributions in relation to the actuarially determined contributions	\$ 1,165,782	\$ 969,055	\$ 735,250
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Annual covered employee payroll	\$ 9,028,656	\$ 7,814,148	\$ 6,138,496
Employer contributions as a % of covered employee payroll	12.91%	12.40%	11.98%

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	18.4 years
Asset Valuation Method	5 years, smoothed value
Inflation	2.50%
Salary Increases	4.7%
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>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u> ¹
\$ 610,719	\$ 568,162	\$ 556,075	\$ 459,901	\$ 351,203	\$ 319,382
\$ 610,719	\$ 568,162	\$ 556,075	\$ 459,901	\$ 351,203	\$ 319,382
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 6,138,496	\$ 5,420,978	\$ 4,463,026	\$ 3,652,421	\$ 2,797,748	\$ 2,538,233
9.95%	10.48%	12.46%	12.59%	12.55%	12.58%

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