ANNUAL FINANCIAL REPORT

of the

Montgomery County ESD 1

As of September 30, 2024

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Montgomery County ESD 1

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BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2024, 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, 2024, 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.

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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.

BrooksWatson & Co.

BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
June 6, 2025

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Montgomery County ESD 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2024

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, 2024. 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.

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.

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 $15,033,167 as of yearend. Unrestricted net position, $5,080,382, 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	
	2024	**2023**
Current and other assets	$ 20,899,095	$ 15,750,527
Capital assets, net	20,677,687	14,536,193
Total Assets	41,576,782	30,286,720
Deferred Outflows of Resources	3,176,023	3,139,478
Other liabilities	5,534,411	3,336,169
Long-term liabilities	23,313,835	16,128,998
Total Liabilities	28,848,246	19,465,167
Deferred Inflows of Resources	871,392	-
Net Position:		
Net investment in capital assets	9,952,785	7,171,207
Unrestricted	5,080,382	6,789,824
Total Net Position	$ 15,033,167	$ 13,961,031

Statement of Activities:

The following table provides a summary of the District's changes in net position for the years ended September 30, 2024 and 2023.

	Governmental Activities	
	2024	**2023**
Revenues		
Property taxes	$ 7,719,237	$ 6,638,382
Sales taxes	10,560,431	10,060,427
Other	105,769	63,376
Operating grants	767,321	530,931
Charges for services - leases	22,343	-
Contributions and donations	320	200
Investment income	743,978	679,441
Total Revenues	19,919,399	17,972,757
Expenses		
Administration	3,350,000	3,018,609
Salaries and benefits	13,649,372	11,767,550
Depreciation	1,164,444	947,922
Debt issuance cost	100,000	-
Interest	583,447	502,552
Total Expenses	18,847,263	16,236,633
Change in Net Position	1,072,136	1,736,124
Beginning Net Position	13,961,131	12,225,007
Ending Net Position	$ 15,033,267	$ 13,961,131

The District reported an increase in overall net position of $1,072,136 compared to the prior year. The increase was primarily due to the District's increased property and sales taxes 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 and interest expense.

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 $3,664,304 or approximately 14% of annual expenditures.

The District's general fund reflects a fund balance of $16,773,646. There was an increase in the fund balance of $2,467,841 compared to the prior year. This increase was primarily due to the debt issuance in the current year.

CAPITAL ASSETS

As of the end of the year, the District had invested $20,677,687 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 new vehicles and related equipment totaling $1,234,309.
- The District purchased a new Rosenbauer custom tanker truck for $1,412,605.
- The District purchased a docking station and generator for station #97 for $195,861.
- The District continued the construction in progress for the new fire training complex for $4,027,473.

LONG-TERM DEBT

The total long-term debt outstanding at the close of the year was $22,794,915. During the year, the District issued new debt totaling $9,000,000 and made principal payments amounting to $1,336,030, resulting in a net increase to debt during the year of $7,663,970.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were over the final budgeted revenues by $227,025 during the year. Actual general fund expenditures were under the final budget by $28,267, primarily due to capital outlay expenditures being under budget. Other financing sources were under budget by $973,398. These variances were the primary reason for a negative overall budget variance of $718,106.

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 2025 fiscal year budget. The economy, employment growth, traffic patterns, and other factors were all a part of their considerations.

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
ESD 1

STATEMENT OF NET POSITION (Page 1 of 2)

September 30, 2024

	Governmental Activities
Assets	
Current Assets	
Cash	$ 17,747,958
Prepaid expenses	229,596
Receivables:	
Property taxes	389,503
Sales taxes	1,873,268
Other	52,201
Lease	606,569
Total Current Assets	20,899,095
Non-Current Assets	
Capital assets, net of accumulated depreciation	
Capital assets - non-depreciable	6,860,300
Capital assets - net depreciable	13,817,387
Total Non-Current Assets	20,677,687
Total Assets	41,576,782
Deferred Outflows of Resources	
Pension contributions	1,028,137
Pension actual vs. expected experience	1,288,213
Pension investment losses	213,000
Pension assumptions	646,673
Total Deferred Outflows of Resources	$ 3,176,023

See notes to Financial Statements

Montgomery County
ESD 1

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2024

		Governmental Activities
Liabilities		
Current Liabilities		
Accounts payable	$	1,968,147
Accrued expenses		1,201,865
Compensated absences, current		776,075
Current portion of long-term debt		1,581,099
Total Current Liabilities		5,527,186
Long-Term Liabilities		
Net pension liability		2,021,014
Compensated absences, noncurrent		86,230
Long-term debt due in more than one year		21,213,816
Total Liabilities		28,848,246
Deferred Inflows of Resources		
Leases		871,392
Total Deferred Inflows of Resources		871,392
Net Position		
Net investment in capital assets		9,952,785
Unrestricted		5,080,382
Total Net Position	$	15,033,167

See Notes to Financial Statements.

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Montgomery County
ESD 1

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2024

		Governmental Activities
Expenses		
Public safety - fire protection		
Administration		$ 3,350,000
Salaries and benefits		13,649,372
Depreciation		1,164,444
Debt issuance cost		100,000
Interest		583,447
	Total Program Expenses	18,847,263
Program Revenues		
Operating grants		767,321
Charges for services - leases		22,343
Contributions and donations		320
	Total Program Revenues	789,984
General Revenues		
Property taxes		7,719,237
Sales taxes		10,560,431
Other revenues		105,769
Investment income		743,978
	Total General Revenues	19,129,415
	Change in Net Position	1,072,136
	Beginning Net Position	13,961,031
	Ending Net Position	$ 15,033,167

See Notes to Financial Statements.

Montgomery County
ESD 1

BALANCE SHEET
September 30, 2024

		General Fund
Assets		
Cash		$ 17,747,958
Prepaid expenses		301,360
Receivables:		
Property taxes		389,503
Sales taxes		1,873,268
Intergovernmental		52,201
Lease		606,569
	Total Assets	$ 20,970,859
Liabilities		
Accounts payable		$ 1,968,147
Accrued expenses		968,171
	Total Liabilities	2,936,318
Deferred Inflows of Resources		
Unavailable revenue - property taxes		389,503
Unavailable revenue - lease		871,392
	Total Deferred Inflows of Resources	1,260,895
Fund Balance		
Nonspendable - prepaids		301,360
Restricted for capital projects		12,807,982
Unassigned		3,664,304
	Total Fund Balance	$ 16,773,646

See Notes to Financial Statements

Montgomery County
ESD 1

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2024

Total fund balance	$	16,773,646
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		(69,905)
Prepaid expenses - interest portion of payments		(1,859)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets, non-depreciable		6,860,300
Capital assets, net depreciable		13,817,387
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property taxes receivable		389,503
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		1,028,137
Pension investment losses (gains)		213,000
Pension assumptions		646,673
Pension actual vs. expected experience		1,288,213
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 financialresources 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		(233,694)
Net pension liability		(2,021,014)
Compensated absences		(862,305)
Long term debt due in less than one year		(1,581,099)
Long term debt due in more than one year		(21,213,816)
Net Position of Governmental Activities	$	15,033,167

See Notes to Financial Statements.

Montgomery County
ESD 1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended September 30, 2024

	General Fund
Revenues	
Property taxes	$ 7,673,063
Sales taxes	10,560,431
Intergovernmental	767,321
Other revenues	63,190
Contributions and donations	320
Lease revenue	22,343
Investment income	743,978
Total Revenues	19,830,646
Expenditures	
Public safety	16,193,331
Capital outlay	8,288,557
Debt service:	
Principal	1,337,889
Interest	485,607
Debt issuance cost	100,000
Total Expenditures	26,405,384
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,574,738)
Other Financing Sources (Uses)	
Sale of assets	42,579
Debt issuance	9,000,000
Total Other Financing Sources (Uses)	9,042,579
Net Change in Fund Balance	2,467,841
Beginning Fund Balance	14,305,805
Ending Fund Balance	$ 16,773,646

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, 2024

Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balance	$	2,467,841
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		7,305,938
Depreciation		(1,164,444)
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		46,174
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		(95,981)
Pension (expense)/income		195,356
Compensated absences		(18,778)
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		1,336,030
Loan issuance		(9,000,000)
Change in Net Position	$	1,072,136

See Notes to Financial Statements.

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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.

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:

<u>Governmental Funds</u>

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 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 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.

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.

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 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 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 TCDRS's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. 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.

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

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Lessee: 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.

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, 2024, general fund expenditures exceeded appropriations at the legal level of control by $7,179,888.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2024, the primary government had the following investments:

Investments Type		Value	Weighted Average Maturity (Years)
External investment pools	$	4,707	0.08
Total	$	4,707	
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, 2024, checking deposits were entirely insured by FDIC coverage.

The District invests in TexPool. At year end, the carrying value of TexPool investments was $4,707. 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.

B. Receivables

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

		General Fund
Property taxes	$	389,503
Sales taxes		1,873,268
Lease		606,569
Other		52,201
Total	$	2,921,541

1. Lease Receivable

The District is the lessor of a contract in which the District is to receive rental payments from Montgomery County Hospital District ("MCHD") for use of a portion of the District's new fire station. The lease commenced on April 10, 2024, with a term of 20 years. As a part of the rental agreement, MCHD agreed to pay a portion of the construction costs. MCHD made an initial payment of $300,000 in April of 2024 as a construction contribution, and will make payments of $300,000 and $350,000 by September 30, 2025 and 2026, respectively. These amounts have been recorded as a receivable at yearend, and discounted at the District's current borrowing rate of approximately 4.5%. The amounts are refundable to MCHD on a pro rata basis if this agreement stops at any point. The construction contributions have been included in the calculation of the related deferrals and amortization for rental revenue. Additionally, monthly rental payments of $1,500 will be paid through April 10, 2044. The monthly rental payments are owed beginning when the new fire station is constructed and it is available for occupancy. The occupancy date was unknown at the time of this report, therefore no receivable for these payments has been recorded. As of September 30, 2024, the lease receivable and offsetting deferred inflows amounted to $606,569 and $871,392, respectively.

C. Prepaid Expenses

Prior to September 30, 2024, 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 $229,596, related to the following: $209,873 for a deposit on an emergency services vehicle, and $19,723 for prepaid insurance.

D. Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2024:

	Beginning Balances	Increases	Decreases/ Transfers	Ending Balances
Capital assets, not being depreciated:				
Land	$ 2,395,640	$ -	$ -	$ 2,395,640
Construction in progress	372,350	4,092,310	-	4,464,660
Total capital assets not being depreciated	2,767,990	4,092,310	-	6,860,300
Capital assets, being depreciated:				
Buildings	8,773,149	52,500	-	8,825,649
Vehicles and equipment	13,771,482	3,161,128	(23,997)	16,908,613
Total capital assets being depreciated	22,544,631	3,213,628	(23,997)	25,734,262
Less accumulated depreciation				
Buildings	(2,204,679)	(183,246)	-	(2,387,925)
Vehicles and equipment	(8,571,749)	(981,198)	23,997	(9,528,950)
Total accumulated depreciation	(10,776,428)	(1,164,444)	23,997	(11,916,875)
Net capital assets being depreciated	11,768,203	2,049,184	-	13,817,387
Total capital assets	$ 14,536,193	$ 6,141,494	$ -	$ 20,677,687

Depreciation expense was $1,164,444 for the year ended September 30, 2024.

E. Long-Term Obligations

The following is a summary of long-term obligations for the year ended September 30, 2024:

Description	Beginning Balances	Increases	Decreases	Ending Balances	Due within a year
Webster Bank - construction note through 2044, interest at 4.52%	$ -	$ 9,000,000	$ -	$ 9,000,000	$ 286,285
US Bank note - Truck through 2024, interest at 2.58%	69,905	-	(69,905)	-	-
First Financial note - fire station through 2033, interest at 2.33%	734,673	-	(68,379)	666,294	70,427
First Financial note - fire station through 2033, interest at 4.20%	1,229,053	-	(115,293)	1,113,760	113,035
Signature Public Funding Corp. - Fire Truck through 2025, interest at 3.24%	369,415	-	(181,756)	187,659	187,659
First Financial note - airpacks through 2031, interest at 1.75%	711,395	-	(83,609)	627,786	85,078
First Financial note - logistics building through 2042, interest at 3.51%	2,877,015	-	(110,982)	2,766,033	112,836
Flagstar Public Fund. note - fire station through 2037, interest at 3.14%	6,628,210	-	(383,564)	6,244,646	395,710
First Financial note - Tankers through 2030, interest at 3.95%	2,511,279	-	(322,542)	2,188,737	330,069
	$ 15,130,945	$ 9,000,000	$ (1,336,030)	$ 22,794,915	$ 1,581,099
			Due in more than one year	$ 21,213,816	

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.

During the year ended September 30, 2024, the District issued a note payable for $9,000,000 to finance the completion of the Training Facility/Station 96 and initiate the design and construction of Station 99. The note bears interest of 4.52% through the maturity date of June of 2044.

The annual requirements to amortize all notes payable outstanding at September 30, 2024 were as follows:

Year ending September 30,	Principal	Interest
2025	$ 1,581,098	$ 851,189
2026	1,444,534	793,608
2027	1,497,572	740,159
2028	1,552,319	691,923
2029	1,609,788	641,280
2030	1,669,139	581,929
2031	1,313,283	524,388
2032	1,264,406	477,671
2033	1,166,514	430,060
2034	1,105,041	387,876
2035	1,146,459	346,458
2036	1,189,354	303,564
2037	1,234,140	258,777
2038	687,079	217,006
2039	716,476	187,609
2040	747,093	156,991
2041	779,131	124,954
2042	792,054	91,581
2043	634,436	58,649
2044	664,999	29,973
Total	$ 22,794,915	$ 7,895,645

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, 2024. 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	$ 666,824	$ 195,481	$ -	$ 862,305	$ 776,075
Total Governmental Activities	$ 666,824	$ 195,481	$ -	$ 862,305	$ 776,075
Long-term Liabilities Due in More than One Year				$ 86,230	

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 870 nontraditional defined contribution benefit plans. TCDRS, in the aggregate, issues a comprehensive annual financial report ("ACFR") on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

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 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 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 12.79% for calendar year 2024 and 12.83% for calendar year 2023.

The District adopted the rate of 7% as the contribution rate payable by the employee members for calendar years 2024 & 2023. 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:	**9/30/2024**	**9/30/2023**	**9/30/2022**
Annual Determined Contribution Cost	$ 1,346,029	$ 1,165,782	$ 969,055
Actual Contributions Made	$ (1,346,029)	$ (1,165,782)	$ (969,055)
Percentage of ADCC Made	100%	100%	100%
Contribution deficiency (excess)	$ -	$ -	$ -

The required contribution rates for fiscal year 2024 were determined as part of the December 31, 2022 and 2023 actuarial valuations.

Additional information as of the latest actuarial valuation, December 31, 2023, also follows:

Valuation Date	12/31/2021	12/31/2022	12/31/2023
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent of payroll, closed	Level Percent of payroll, closed	Level Percent of payroll, closed
Amortization Period in years	19.1 years	18.4 years	17.0 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 *	4.7%	2.3%	2.3%
* Includes Inflation at stated-rate	2.50%	2.50%	2.50%
Cost-of Living Adjustments	n/a	n/a	n/a

Employees covered by benefit terms

At the December 31, 2023 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	120
Active employees	100
Total	224

5. Net Pension Liability

The District's Net Pension Liability (NPL) was measured as of December 31, 2023, 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, 2023 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, 2023, valuation were based on the results of an actuarial experience study updated every four years, 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.

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%	4.75%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (5)	25.00%	7.75%
Global Equities	MSCI World (net) Index	2.50%	4.75%
International Equities – Developed	MSCI World Ex USA (net) Index	5.00%	4.75%
International Equities – Emerging	MSCI Emerging Markets (net) Index	6.00%	4.75%
Investment - Grade Bonds	Bloomberg U.S. Aggregate Bond Index	3.00%	2.35%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.65%
Direct Lending	Morningstar LSTA US Leveraged Loan TR USD Index	16.00%	7.25%
Distressed Debt	Cambridge Associates Distressed Securities Index (3)	4.00%	6.90%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.10%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.20%
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%	3.25%
Cash Equivalents	90-day U.S. Treasury	2.00%	0.60%

(1) Target asset allocation adopted at the March 2024 TCDRS Board meeting.
(2) Geometric real rates of return in addition to assumed inflation of 2.2%, per Cliffwater's 2024 capital market assumptions.
(3) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.
(4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.
(5) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term 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 12/31/22	$ 17,054,119	$ 14,874,294	$ 2,179,825
Changes for the year:			
Service Cost	1,330,899	-	1,330,899
Interest on total pension liability (1)	1,391,054	-	1,391,054
Effect of economic/demographic gains or losses	714,090	-	714,090
Effect of assumptions changes or inputs	-	-	-
Benefit payments and refunds	(166,393)	(166,393)	-
Administrative expense	-	(9,559)	9,559
Member contributions	-	657,278	(657,278)
Net investment income (loss)	-	1,651,480	(1,651,480)
Employer contributions	-	1,204,800	(1,204,800)
Other (2)	-	90,855	(90,855)
Net changes	3,269,650	3,428,461	(158,811)
Balance at 12/31/23	$ 20,323,769	$ 18,302,755	$ 2,021,014

(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.

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%
$ 6,413,812	$ 2,021,014	$ (1,498,656)

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, 2024 was $1,150,671.

At September 30, 2024, 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	$ 1,288,213
Changes of assumptions	646,673
Differences between projected and investment earnings	213,000
Contributions subsequent to the measurement date	1,028,137
Total	$ 3,176,023

The District reported $1,028,137 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, 2025.

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

Year ended December 31:		
2024	$	482,738
2025		504,280
2026		781,846
2027		35,955
2028		126,904
Thereafter		216,163
	$	2,147,886

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 $28,600.

F. Subsequent Events

There were no material subsequent events outside of typical operations through June 6, 2025, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended September 30, 2024

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	$ 7,645,260	$ 7,645,260	$ 7,673,063	$ 27,803
Sales tax	10,250,000	11,000,000	10,560,431	(439,569)
Intergovernmental	-	61,875	767,321	705,446
Other revenues	24,150	31,662	63,190	31,528
Contributions and donations	-	320	320	-
Lease revenue	26,400	326,400	22,343	(304,057)
Investment earnings	350,000	538,104	743,978	205,874
Total Revenues	18,295,810	19,603,621	19,830,646	227,025
Expenditures				
Public safety	15,648,633	15,615,376	16,193,331	(577,955)
Capital outlay	8,280,792	8,994,779	8,288,557 *	706,222
Debt service - principal	1,275,990	1,337,889	1,337,889	-
Debt service - interest	547,506	485,607	485,607	-
Debt service - debt issuance cost	-	-	100,000	(100,000)
Total Expenditures	25,752,921	26,433,651	26,405,384	28,267
Revenues Over (Under) Expenditures	(7,457,111)	(6,830,030)	(6,574,738)	255,292
Other Financing Sources				
Sale of assets	-	15,977	42,579	26,602
Debt issuances	-	10,000,000	9,000,000	(1,000,000)
Total Other Financing Sources	-	10,015,977	9,042,579	(973,398)
Net Change in Fund Balance	$ (7,457,111)	$ 3,185,947	2,467,841	$ (718,106)
Beginning Fund Balance			14,305,805	
Ending Fund Balance			$ 16,773,646	

Notes to Required Supplementary Information:

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

* $5,492,578 of capital outlay relates to loan funds received in prior years.

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SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended

	12/31/2023	12/31/2022	12/31/2021	12/31/2020
Total pension liability				
Service cost	$ 1,330,899	$ 1,157,697	$ 1,186,194	$ 805,012
Interest (on the Total Pension Liability)	1,391,054	1,196,180	1,014,041	799,781
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	714,090	301,138	105,749	484,267
Changes of assumptions	-	-	343,724	1,068,475
Benefit payments, including refunds of participant contributions	(166,393)	(358,254)	(95,833)	(44,880)
Net change in total pension liability	3,269,650	2,296,761	2,553,875	3,112,655
Total pension liability - beginning	17,054,119	14,757,358	12,203,483	9,090,828
Total pension liability - ending (a)	$ 20,323,769	$ 17,054,119	$ 14,757,358	$ 12,203,483
Plan fiduciary net position				
Contributions - employer	$ 1,204,800	$ 1,052,551	$ 738,635	$ 665,857
Contributions - members	657,278	559,018	514,473	467,503
Net investment income (loss)	1,651,480	(950,548)	2,487,469	901,401
Benefit payments, including refunds of participant contributions	(166,393)	(358,254)	(95,833)	(44,880)
Administrative expenses	(9,559)	(8,717)	(7,786)	(7,843)
Other	90,855	188,483	35,739	33,072
Net change in plan fiduciary net position	3,428,461	482,533	3,672,697	2,015,110
Plan fiduciary net position - beginning	14,874,294	14,391,761	10,719,064	8,703,954
Plan fiduciary net position - ending (b)	$ 18,302,755	$ 14,874,294	$ 14,391,761	$ 10,719,064
Fund's net pension liability - ending (a) - (b)	$ 2,021,014	$ 2,179,825	$ 365,597	$ 1,484,419
Plan fiduciary net position as a percentage of the total pension liability	90.06%	87.22%	97.52%	87.84%
Covered payroll	$ 9,389,680	$ 7,985,967	$ 7,349,612	$ 6,678,615
Fund's net position as a percentage of covered payroll	21.52%	27.30%	4.97%	22.23%

	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
	$ 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)
	1,647,161	1,373,918	1,154,229	849,118	505,305	720,409
	7,443,667	6,069,749	4,915,520	4,066,402	3,561,097	2,840,688
	$ 9,090,828	$ 7,443,667	$ 6,069,749	$ 4,915,520	$ 4,066,402	$ 3,561,097
	$ 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)
	2,028,438	759,695	1,372,182	923,137	447,961	620,919
	6,675,516	5,915,821	4,543,639	3,620,502	3,172,541	2,551,622
	$ 8,703,954	$ 6,675,516	$ 5,915,821	$ 4,543,639	$ 3,620,502	$ 3,172,541
	$ 386,874	$ 768,151	$ 153,928	$ 371,881	$ 445,900	$ 388,556
	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%

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SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended

	9/30/2024	9/30/2023	9/30/2022	9/30/2021
Actuarially determined employer contributions	$ 1,346,029	$ 1,165,782	$ 969,055	$ 735,250
Contributions in relation to the actuarially determined contributions	$ 1,346,029	$ 1,165,782	$ 969,055	$ 735,250
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Annual covered employee payroll	$ 10,516,326	$ 9,028,656	$ 7,814,148	$ 6,138,496
Employer contributions as a % of covered employee payroll	12.80%	12.91%	12.40%	11.98%

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	17.0 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	135% 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 120% of the MP-2014 Ultimate scale after 2014.

Other Information:

Notes	There were no benefit changes during the year.

9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
$ 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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