

ANNUAL FINANCIAL REPORT

of the

Montgomery County Emergency Services District No. 8

**For the Year Ended
September 30, 2019**

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Montgomery County Emergency Services District No. 8

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Montgomery County Emergency Services District No. 8:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Montgomery County Emergency Services District No. 8 (the "District"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund as of September 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
May 15, 2020

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

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Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the Montgomery County Emergency Services District No. 8 (the "District") for the year ended September 30, 2019. 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.

Financial Highlights

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows (net position) at September 30, 2019 by \$20,810,668. Of this amount, \$4,875,220 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The net pension liability as of September 30, 2019 was \$699,589, which represented a \$475,167 increase compared to prior year.
- The District's total net position increased by \$1,512,098.

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

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

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

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is considered to be a major fund.

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

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information ("RSI"). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund. The RSI also contains schedules on the District's net pension liability required by GASB 68. The RSI can be found after the notes to the financial statements within this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. For the District, assets exceeded liabilities by \$20,810,668 as of yearend. Unrestricted net position, \$4,875,220, may be used to meet the District's ongoing emergency service operations.

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	2019	2018
Current and other assets	\$ 13,551,979	\$ 6,775,959
Capital assets, net	25,282,928	24,800,141
Total Assets	38,834,907	31,576,100
Deferred outflows of resources - pension	1,228,981	803,423
Total Deferred Outflows of Resources	1,228,981	803,423
Accounts payable and accrued expenses	679,432	641,851
Unearned revenue	356,556	379,557
Net pension liability	699,589	224,422
Long-term liabilities (current & LT portion)	17,477,581	11,748,608
Total Liabilities	19,213,158	12,994,438
Deferred inflows of resources - pension	40,062	86,515
Total Deferred Inflows of Resources	40,062	86,515
Net Position:		
Net investment in capital assets		
net of related debt	15,935,448	13,608,243
Unrestricted	4,875,220	5,690,327
Total Net Position	\$ 20,810,668	\$ 19,298,570

Current and other assets increased primarily as a result of increased cash on hand, which is a direct result of the \$7,500,000 note issuance in the current year. Capital assets increased primarily due to capital investments outweighing depreciation expense in the current year. Accounts payable and accrued expenses increased slightly due primarily to timing of payments subsequent to yearend. Long-term liabilities increased as a result of the issuance of a \$7,500,000 loan in order to finance the reconstruction of a fire station.

The overall net position of the District increased due to revenues exceeding expenses by \$1,512,098 during the current year.

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

Statement of Activities:

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

	Governmental Activities	
	2019	2018
Revenues		
Program revenues:		
Operating grant income	\$ -	\$ 46,165
General revenues:		
Property taxes	6,650,712	6,282,330
Sales taxes	8,332,782	7,870,250
Other	346,812	204,504
Investment income	203,872	85,006
Total Revenues	15,534,178	14,488,255
Expenses		
Public safety	13,698,690	12,131,155
Interest and fiscal charges	323,390	271,538
Total Expenses	14,022,080	12,402,693
Change in Net Position	1,512,098	2,085,562
Beginning Net Position	19,298,570	17,213,008
Ending Net Position	\$ 20,810,668	\$ 19,298,570

The District reported an increase in net position of \$1,512,098. This is primarily due to increases in sales tax of \$462,532, property tax of \$368,382, and interest income of \$118,866. Tax revenue increased due to increased development within the District. Interest income increased due to greater interest-bearing account balances in the current year.

The increase in public safety expenses was primarily due to an increase in salaries and other personnel costs as a result of annual rises. In addition, there were increases in legal, sales tax consulting, and equipment 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 Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

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

The District's general fund reflects a fund balance of \$12,586,612. There was an increase in the fund balance of \$6,970,477 over the prior year. This increase is attributed to \$7,500,000 in loan proceeds received in the current year.

CAPITAL ASSETS

As of the end of the year, the District's governmental activities funds had invested \$25,282,928 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34.

Major capital asset events during the current year include the following:

- Purchase of new ladder truck for \$951,894.
- Purchase of new public safety vehicles totaling \$228,798.
- Construction and architect related expenses for Station 11-1 totaling \$346,974.
- Investments in Station 3 training field amounting to \$76,865.

More detailed information about the District's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the District had total notes payable outstanding of \$16,922,500. During the year, the District made principal payments on notes payable of \$1,919,374. During the year, the District entered into a note payable agreement for \$7,500,000. More detailed information about the District's long-term liabilities is presented in note IV. D. to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than final budgeted revenues by \$404,423 during the year. The positive revenue variance was primarily due to sales tax and other revenues exceeding budget due to growth within the District. Actual general fund expenditures were over the final budget by \$966,482. Total expenditures were over budget due to capital outlay being over budget. Other financing sources were under budgeted by \$7,507,226 due to current

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

year borrowings and insurance proceeds not budgeted for. These variances were the primary reasons for a net positive overall variance of \$6,945,167.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District is located in Montgomery County, Texas. The District expected growth in the coming year prior to the COVID-19 pandemic, and is currently addressing the potential impact.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be directed to Municipal Accounts & Consulting, LP, 611 Longmire Road, Conroe, TX 77304, telephone (936) 647-4024.

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FINANCIAL STATEMENTS

Montgomery County
Emergency Services District No. 8
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2019

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	
Cash	\$ 10,718,951
Investments	1,200,000
Tax receivables	1,539,572
Other receivables	6,062
Accrued interest receivable	10,046
Prepays and other assets	77,348
Total Current Assets	<u>13,551,979</u>
Non-Current Assets	
Capital assets:	
Capital assets - non-depreciable	3,717,192
Capital assets - net depreciable	21,565,736
Total Non-Current Assets	<u>25,282,928</u>
Total Assets	<u><u>38,834,907</u></u>
<u>Deferred Outflows of Resources</u>	
Pension contributions	414,953
Pension (gains) losses	465,905
Pension investment experience	348,123
Total Deferred Outflows of Resources	<u>1,228,981</u>

See Notes to Financial Statements.

Montgomery County
Emergency Services District No. 8

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2019

	Governmental Activities
<u>Liabilities</u>	
Current Liabilities	
Accounts payable & accrued expenses	\$ 495,281
Accrued interest	184,151
Unearned revenue, current	23,001
Compensated absences, current	499,573
Long-term debt due within a year	2,375,774
Total Current Liabilities	3,577,780
Long-term liabilities	
Long-term debt due in more than one year	14,546,726
Compensated absences, noncurrent	55,508
Unearned revenue, net of current portion	333,555
Net pension liability	699,589
Total Liabilities	19,213,158
<u>Deferred Inflows of Resources</u>	
Pension assumption changes	40,062
Total Deferred Inflows of Resources	40,062
<u>Net Position</u>	
Net investment in capital assets	15,935,448
Unrestricted	4,875,220
Total Net Position	\$ 20,810,668

See Notes to Financial Statements.

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Montgomery County

Emergency Services District No. 8

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

<u>General Revenue</u>	<u>Governmental Activities</u>
Property taxes	\$ 6,650,712
Sales taxes	8,332,782
Other revenues	346,812
Investment income	203,872
Total Revenues	15,534,178
<u>Expenses</u>	
Public safety	13,698,690
Interest and fiscal charges	323,390
Total Expenses	14,022,080
Change in Net Position	1,512,098
Beginning Net Position	19,298,570
Ending Net Position	\$ 20,810,668

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 8

BALANCE SHEET
September 30, 2019

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 3,143,907
Restricted cash	7,575,044
Investments	1,200,000
Receivables:	
Property taxes	113,400
Sales taxes	1,426,172
Other receivables	6,062
Accrued interest	10,046
Prepays and other assets	77,348
Total Assets	\$ 13,551,979
 <u>Liabilities</u>	
Accounts payable	\$ 227,184
Accrued expenses	268,097
Unearned revenue	356,556
Total Liabilities	851,837
 <u>Deferred Inflows of Resources</u>	
Unavailable revenue - property taxes	113,530
Total Deferred Inflows of Resources	113,530
 <u>Fund balance</u>	
Nonspendable	73,498
Committed	
Capital investments	600,000
Restricted for capital improvements	7,575,044
Unassigned	4,338,070
Total Fund Balance	\$ 12,586,612

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 8

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION September 30, 2019

Total fund balance	\$ 12,586,612
Amounts reported for governmental activities in the Statement of Net Position:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets, non-depreciable	3,717,192
Capital assets, net depreciable	21,565,736
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property taxes receivable	113,530
Deferred outflows (inflows) of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.	
Pension contributions	414,953
Pension investment experience	348,123
Pension (gains) losses	465,905
Pension assumption changes	(40,062)
Long-term liabilities are not due in payable in the current period (i.e. note payables, capital leases, and compensated balances) and, therefore, are not reported as liabilities in the government funds	
Accrued interest	(184,151)
Net pension liability	(699,589)
Compensated absences	(555,081)
Non-current liabilities due in one year	(2,375,774)
Non-current liabilities due in more than one year	(14,546,726)
Net Position of Governmental Activities	<u>\$ 20,810,668</u>

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 8

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended September 30, 2019

	General Fund
General Revenue	
Property taxes	\$ 6,641,483
Sales taxes	8,332,782
Other revenues	302,486
Investment income	203,872
Total Revenues	15,480,623
 Expenditures	
Public safety	11,287,812
Capital outlay	2,555,062
Debt service:	
Principal	1,919,374
Interest	255,124
Total Expenditures	16,017,372
 Other Financing Sources	
Loan proceeds	7,500,000
Insurance proceeds	7,226
Total Other Financing Sources	7,507,226
Net Change in Fund Balance	6,970,477
Beginning Fund Balance	5,616,135
Ending Fund Balance	\$ 12,586,612

See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 8

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

For the Year Ended September 30, 2019

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

Net change in fund balance	\$	6,970,477
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		1,692,428
Depreciation		(1,359,441)
Disposals		(200)

Revenue in the statement of activities that does not provide current financial resources are not reported as revenue in the funds.		9,229
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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		(68,266)
Compensated absences		(148,347)
Pension (expense)/income		(3,156)

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.

Debt issuance		(7,500,000)
Principal payments		1,919,374
Net Change in Net Position	\$	<u>1,512,098</u>

See Notes to Financial Statements.

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Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Montgomery County Emergency Services District No. 8 (the "District") operates under Chapter 775, "Emergency Services Districts" of V.T.C.A, Health and Safety Code. The District was converted from a Rural Fire Prevention District in 1997. The District is a duly organized emergency services district, created to protect life and property from fire and to conserve natural and human resources.

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.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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

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

The government reports the following governmental funds:

Governmental Funds

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

General Fund

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

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

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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 \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles and equipment	5 to 15 years
Furniture	5 years
Buildings and improvements	5 to 45 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*

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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. 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).

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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 sick time 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 sick 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.

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NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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 same basis as they are reported by TCERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Fair Value

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term assets,

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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.

A budget is prepared by fund and function. Appropriations lapse at the end of the year. During the year, the District’s actual expenditures exceeded budget for the following expenses:

Capital outlay	\$ 2,065,062
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IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2019, the District had the following investments:

Investments Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 1,200,000	0.69
External investment pools	3,023,398	0.11
Total value	\$ 4,223,398	
Portfolio weighted average maturity		0.27

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

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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, 2019, checking deposits were collateralized by an amount over and above the yearend balances.

The District invests in TexPool and Texas CLASS. At year end, the value of TexPool and Texas CLASS investments was \$2,164,119 and \$859,279, respectively.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts, for review. This investment is considered to be a cash equivalent for reporting purposes.

TexPool operates in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of their shares. There were no restrictions or limitations on withdrawals.

Texas CLASS

Texas CLASS (Texas Cooperative Liquid Assets Securities System Trust) was established in 1996, and was created as an investment pool for its Participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. According to State Code, entities may pool any of their funds, or funds under their control, in order to preserve principal, to maintain the liquidity of the funds, and to maximize yield. The Texas CLASS Trust Agreement is an agreement of indefinite term regarding the investment, reinvestment and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the "Participants"), Public Trust Advisors LLC (PTA) as Program Administrator, and Wells Fargo Bank Texas, N.A. as Custodian. Texas CLASS invests

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2019

only in securities allowed by the Texas Public Funds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated 'AAAm' by Standard and Poor's Ratings Services. The District's fair value position is stated at the value of the position upon withdrawal.

B. Receivables

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

	General Fund
Property taxes	\$ 113,400
Sales taxes	1,426,172
Accrued interest	10,046
Other receivables	6,062
Total	\$ 1,555,680

C. Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2019:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 3,262,480	\$ -	\$ -	\$ 3,262,480
Construction in progress	30,873	423,839	-	454,712
Total capital assets not being depreciated	<u>3,293,353</u>	<u>423,839</u>	<u>-</u>	<u>3,717,192</u>
Capital assets, being depreciated:				
Buildings	22,004,420	-	-	22,004,420
Vehicles and equipment	8,647,925	1,268,589	(115,746)	9,800,768
Total capital assets being depreciated	<u>30,652,345</u>	<u>1,268,589</u>	<u>(115,746)</u>	<u>31,805,188</u>
Less accumulated depreciation				
Buildings	(2,660,950)	(574,268)	-	(3,235,218)
Vehicles and equipment	(6,334,607)	(785,173)	115,546	(7,004,234)
Total accumulated depreciation	<u>(8,995,557)</u>	<u>(1,359,441)</u>	<u>115,546</u>	<u>(10,239,452)</u>
Net capital assets being depreciated	21,656,788	(90,852)	(200)	21,565,736
Total capital assets	\$ 24,950,141	\$ 332,987	\$ (200)	\$ 25,282,928

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

D. Long-Term Obligations

The following is a summary of long-term obligations for the year ended September 30, 2019:

	Balance at 9/30/2018	Increases	Decreases	Balance at 9/30/2019	Due within a year
Governmental Activities:					
Notes Payable:					
2011 Birnham Woods, due in annual installments through 2021, interest at 2.65%	\$ 1,601,813	\$ -	\$ (340,380)	\$ 1,261,433	\$ 349,094
2012 Station 2, due in semi-annual installments through 2022, interest at 2.54%	1,123,437	-	(269,801)	853,636	277,050
2014 Station 3 (Robinson Road), due in semi-annual installments through 2024, interest at 2.28%	5,960,190	-	(944,655)	5,015,535	966,033
2016 Station 6 (Discovery Creek Road), due in annual installments through 2026, interest at 2.10%	2,656,434	-	(364,538)	2,291,896	372,193
2019 Station 11-1 Volunteer Lane, due in semi-annual installments through 2034, interest at 2.71%	-	7,500,000	-	7,500,000	411,404
	\$ 11,341,874	\$ 7,500,000	\$ (1,919,374)	\$ 16,922,500	\$ 2,375,774
			Due in more than one year	\$ 14,546,726	

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.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

As of September 30, 2019, the debt service requirements are as follows:

Year ending September 30,	Notes Payable	
	Principal	Interest
2020	\$ 2,375,774	\$ 410,461
2021	2,433,580	352,656
2022	2,492,599	293,637
2023	2,063,544	233,218
2024	1,878,172	186,674
2025	611,138	148,484
2026	694,088	132,702
2027	496,640	115,098
2028	510,180	101,558
2029	524,089	87,649
2030	538,377	73,361
2031	553,055	58,683
2032	568,133	43,605
2033	583,622	28,115
2034	599,510	12,204
Total	\$ 16,922,500	\$ 2,278,103

On June 23, 2016, the District entered into a term loan agreement with Trustmark National Bank to finance the construction of a new fire station. The total amount funded by the bank as of September 30, 2019 was \$3,596,646 as the agreement entails drawdown of funds as pay applications are submitted. The stated interest rate on the loan is 2.10%. The loan requires annual payments of \$420,324 (includes principal and interest) be paid on June 24 through June 2026.

On March 28, 2014, the District entered into a term loan agreement with Wells Fargo Bank, N.A. to finance the construction of a new fire station. The total amount funded by the bank as of September 30, 2019 was \$9,137,434. The stated interest rate on the loan is 2.28%. The loan requires semi-annual payments of \$537,605 be paid on April 10 and October 10 through April 2024.

On April 24, 2019, the District entered into a note payable agreement with Chase Bank to finance the construction of a fire station. The total amount funded by the bank as of September 30, 2019 was \$7,500,000. The stated interest rate on the loan was 2.71%. The loan requires semi-annual payments of \$305,869 (includes principal and interest be paid on April 24 and October 24 through April 2034.

In accordance with the loan terms with Wells Fargo Bank, N.A., the District must maintain a debt coverage ratio not less than 1.1 to 1.0. As of September 30, 2019, the District was in compliance with this financial covenant.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2019

E. Other Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 406,734	\$ 447,809	\$ (299,462)	\$ 555,081	\$ 499,573
Total Governmental Activities	<u>\$ 406,734</u>	<u>\$ 447,809</u>	<u>\$ (299,462)</u>	<u>\$ 555,081</u>	<u>\$ 499,573</u>

F. Unearned Revenue

Unearned revenue relates to the unamortized portion of contribution payments received by the District from the Montgomery County Hospital District ("MCHD"). As a part of the lease agreement between the District (lessor) and MCHD (lessee), MCHD paid a one-time contribution payment of \$460,021 in 2015 for purposes of alleviating a portion of the construction cost of the ESD facilities for the Station 4 addition. The term of the lease is twenty years. In the event the lease is terminated prior to completion of the term, the pro rata amount of the one-time contribution payment will be owed back to MCHD. The following is a summary of unearned revenue for the year ended September 30, 2019:

	Balance at 9/30/2018	Increases	Decreases	Balance at 9/30/2019
Unearned revenue	379,557	-	(23,001)	356,556
	<u>\$ 379,557</u>	<u>\$ -</u>	<u>\$ (23,001)</u>	<u>\$ 356,556</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

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

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

C. Defined Benefit Pension Plan

1. Plan Description

The District provides retirement, disability, and death benefits for all its eligible employees through a nontraditional defined benefit pension plan in the statewide Texas County & District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 782 nontraditional defined contribution benefit plans. TCDRS, in the aggregate, issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

2. Benefits Provided

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

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

At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

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 7.97% for calendar year 2019 and 8.34% for calendar year 2018.

The District adopted the rate of 7% as the contribution rate payable by the employee members for calendar years 2019 & 2018. The District may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

4. Contributions

Years ended:

	<u>9/30/19</u>	<u>9/30/18</u>	<u>9/30/17</u>
Annual Determined Contribution Cost (ADCC)	\$ 581,548	\$ 566,816	\$ 496,614
Actual Contributions Made	\$ (581,548)	\$ (566,816)	\$ (496,614)
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 2018 were determined as part of the December 31, 2018 actuarial valuation.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2019

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

Valuation Date	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</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	15.1 years	15.1 years	15.0 years
Asset Valuation Method	5-year Smoothed Fund	5-year Smoothed Fund	5-year Smoothed Fund
Actuarial Assumptions:			
Investment Rate of Return *	8.1%	8.1%	8.0%
Projected Salary Increases *	4.90%	4.90%	4.90%
* Includes Inflation at stated-rate	3.0%	3.0%	2.75%
Cost-of Living Adjustments	0.0%	0.0%	0.0%

Employees covered by benefit terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	35
Active employees	<u>123</u>
Total	<u>158</u>

5. Net Pension Liability

The District's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2019

Actuarial assumptions:

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Overall payroll growth	0 - 5.25% per year depending on experience
Investment Rate of Return	8.1%, 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, 2017, valuation were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 8.1% gross of administrative expenses. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

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

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2019

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	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities – Developed	MSCI World Ex USA (net)	10.00%	5.40%
International Equities – Emerging	MSCI Emerging Markets (net)	7.00%	5.90%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.35%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

(1) Target asset allocation adopted at the April 2019 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.70%, per Cliffwater's 2019 capital market assumptions.

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

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

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

Discount Rate:

The discount rate used to measure the Total Pension Liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2019

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/17	\$ 5,023,965	\$ 4,799,543	\$ 224,422
Changes for the year:			
Service Cost	891,091	-	891,091
Interest on total pension liability ⁽¹⁾	478,968	-	478,968
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	125,738	-	125,738
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(3,809)	(3,809)	-
Administrative expense	-	(4,672)	4,672
Member contributions	-	488,512	(488,512)
Net investment income	-	(77,500)	77,500
Employer contributions	-	582,027	(582,027)
Other ⁽³⁾	-	32,263	(32,263)
Net changes	1,491,988	1,016,821	475,167
Balance at 12/31/18	\$ 6,515,953	\$ 5,816,364	\$ 699,589

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

(2) No plan changes valued.

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

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

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

1% Decrease 7.10%	Current Single Rate Assumption 8.10%	1% Increase 9.10%
\$ 2,218,584	\$ 699,589	\$ (503,317)

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.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2019

5. Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended September 30, 2019, the District recognized pension expense of \$584,702.

At September 30, 2019, the District reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between projected and investment earnings	\$ 348,123	\$ -
Changes in actuarial assumptions	-	(40,062)
Differences between expected and actual economic experience	465,905	-
Contributions subsequent to the measurement date	414,953	-
Total	<u>\$ 1,228,981</u>	<u>\$ (40,062)</u>

The District reported \$414,953 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, 2020.

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:	
2019	\$ 155,752
2020	116,111
2021	107,331
2022	146,283
2023	44,336
Thereafter	204,153
	<u>\$ 773,966</u>

D. Subsequent Events

After yearend the District continued construction of station 11-1.

In February of 2020, the District's commissioners approved the purchase of a Pierce Enforcer for \$640,342.

Subsequent events were evaluated through May 15, 2020, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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Montgomery County
Emergency Services District No. 8
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended September 30, 2019

	Original & Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 6,700,000	\$ 6,641,483	\$ (58,517)
Sales tax	8,200,000	8,332,782	132,782
Other revenues	96,200	302,486	206,286
Investment earnings	80,000	203,872	123,872
Total Revenues	<u>15,076,200</u>	<u>15,480,623</u>	<u>404,423</u>
Expenditures			
Public safety	12,365,013	11,287,812	1,077,201
Capital outlay	490,000	2,555,062	(2,065,062) *
Debt service:			
Principal	1,940,753	1,919,374	21,379
Interest	255,124	255,124	-
Total Expenditures	<u>15,050,890</u>	<u>16,017,372</u>	<u>(966,482) *</u>
Other Financing Sources			
Loan proceeds	-	7,500,000	7,500,000
Insurance proceeds	-	7,226	7,226
Total Other Financing Sources	<u>-</u>	<u>7,507,226</u>	<u>7,507,226</u>
Net Change in Fund Balance	<u>\$ 25,310</u>	<u>6,970,477</u>	<u>\$ 6,945,167</u>
Beginning Fund Balance		<u>5,616,135</u>	
Ending Fund Balance		<u>\$ 12,586,612</u>	

Notes to Required Supplementary Information:

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

* Expenditures exceeded budget at the legal level of control.

Montgomery County

Emergency Services District No. 8

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For The Years Ended December 31,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total pension liability			
Service cost	\$ 891,091	\$ 732,593	\$ 711,053
Interest (on the Total Pension Liability)	478,968	353,933	244,478
Changes in benefit terms	-	-	-
Differences between expected and actual experience	125,738	367,068	54,931
Changes of assumptions	-	(54,348)	-
Benefit payments, including refunds of participant contributions	(3,809)	(24,005)	(61,570)
Net change in total pension liability	<u>1,491,988</u>	<u>1,375,241</u>	<u>948,892</u>
Total pension liability - beginning	<u>5,023,965</u>	<u>3,648,724</u>	<u>2,699,832</u>
Total pension liability - ending (a)	<u>\$ 6,515,953</u>	<u>\$ 5,023,965</u>	<u>\$ 3,648,724</u>
Plan fiduciary net position			
Contributions - employer	\$ 582,027	\$ 519,629	\$ 435,331
Contributions - members	488,512	445,215	348,663
Net investment income	(77,500)	503,505	180,095
Benefit payments, including refunds of participant contributions	(3,809)	(24,005)	(61,570)
Administrative expenses	(4,672)	(3,193)	(1,958)
Other	32,263	12,579	64,799
Net change in plan fiduciary net position	<u>1,016,821</u>	<u>1,453,730</u>	<u>965,360</u>
Plan fiduciary net position - beginning	<u>4,799,543</u>	<u>3,345,813</u>	<u>2,380,453</u>
Plan fiduciary net position - ending (b)	<u>\$ 5,816,364</u>	<u>\$ 4,799,543</u>	<u>\$ 3,345,813</u>
Fund's net pension liability - ending (a) - (b)	<u>\$ 699,589</u>	<u>\$ 224,422</u>	<u>\$ 302,911</u>
Plan fiduciary net position as a percentage of pension liability	89.26%	95.53%	91.70%
Covered payroll	\$ 6,978,742	\$ 6,360,212	\$ 4,980,902
Fund's net position as a percentage of covered payroll	10.02%	3.53%	6.08%

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>2015</u>	<u>2014</u>	¹
\$	569,713	\$ 512,481	
	192,348	140,238	
	(151,356)	-	
	(61,208)	80,620	
	9,410	-	
	<u>(47,133)</u>	<u>(49,756)</u>	
	<u>511,774</u>	<u>683,583</u>	
	<u>2,188,058</u>	<u>1,504,475</u>	
\$	<u>2,699,832</u>	<u>\$ 2,188,058</u>	
\$	394,090	\$ 326,871	
	311,007	258,834	
	(28,640)	78,594	
	(47,133)	(49,756)	
	(1,521)	(1,132)	
	<u>(182)</u>	<u>(82)</u>	
	<u>627,621</u>	<u>613,329</u>	
	<u>1,752,832</u>	<u>1,139,503</u>	
\$	<u>2,380,453</u>	<u>\$ 1,752,832</u>	
\$	<u>319,379</u>	<u>\$ 435,226</u>	
	88.17%	80.11%	
\$	4,442,951	\$ 3,697,632	
	7.19%	11.77%	

Montgomery County
Emergency Services District No. 8
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
For The Fiscal Years Ended

	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>
Actuarially determined employer contributions	\$ 581,548	\$ 566,816	\$ 496,614
Contributions in relation to the actuarially determined contribution	<u>\$ 581,548</u>	<u>\$ 566,816</u>	<u>\$ 496,614</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Annual covered payroll	\$ 7,203,981	\$ 6,867,752	\$ 5,960,927
Employer contributions as a percentage of covered payroll	8.07%	8.25%	8.33%

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 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	15.0 years (based on contribution rate calculated in 12/31/2018 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age of service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	110% of the MP-2014 Ultimate Scale after 2014.

Other Information:

Notes No changes in plan provisions

<u>9/30/2016</u>	<u>9/30/2015</u> ¹
\$ 419,994	\$ 366,438
<u>\$ 419,994</u>	<u>\$ 366,438</u>
\$ -	\$ -
\$ 4,787,328	\$ 4,147,730
8.77%	8.83%