

*ANNUAL FINANCIAL REPORT*

of the

**Montgomery County Emergency Services District No. 10**

For the Year Ended

December 31, 2014



(This page intentionally left blank.)

# Montgomery County Emergency Services District No. 10

## TABLE OF CONTENTS

For the Year Ended December 31, 2014

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	5
 <b><u>FINANCIAL STATEMENTS</u></b>	
Statement of Net Position	13
Statement of Activities	15
Balance Sheet and Reconciliation to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Change in Fund Balance	18
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities	19
Notes to Financial Statements	21
 <b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
Budgetary Comparison Schedule – General Fund	37

(This page intentionally left blank.)

*INDEPENDENT AUDITOR'S REPORT*

To the Board of Commissioners of the  
Montgomery County Emergency Services District No. 10:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the and each major fund of the Montgomery County Emergency Services District No. 10 (the "District"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund as of December 31, 2014, 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.

Respectfully,

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC  
The Woodlands, Texas  
May 14, 2015

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

(This page intentionally left blank.)



# Montgomery County Emergency Services District No. 10

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2014

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. 10 (the "District") for the year ended December 31, 2014. 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 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

# Montgomery County Emergency Services District No. 10

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

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*.

# Montgomery County Emergency Services District No. 10

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

The District maintains two governmental funds. 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 and debt service fund, which are considered to be major funds.

The general fund is used to report the District's activities. The debt service fund is used to account for property tax collected and debt service payments made. 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 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 \$9,539,054 as of yearend. Unrestricted net position, \$3,875,702, may be used to meet the District's ongoing emergency service operations.

# Montgomery County Emergency Services District No. 10

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

### Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
Current and other assets	\$ 9,368,699	\$ 8,557,591
Capital assets, net	11,273,249	11,816,884
<b>Total Assets</b>	<b>20,641,948</b>	<b>20,374,475</b>
Accounts payable and accrued expenses	243,460	168,002
Unearned revenue	4,959,561	4,682,180
Long-term liabilities	5,899,873	6,568,204
<b>Total Liabilities</b>	<b>11,102,894</b>	<b>11,418,386</b>
Net Position:		
Net investment in		
capital assets	5,373,376	5,248,680
Restricted	289,976	279,304
Unrestricted	3,875,702	3,428,105
<b>Total Net Position</b>	<b>\$ 9,539,054</b>	<b>\$ 8,956,089</b>

Current and other assets increased as a result of the increased cash on hand as of yearend.

Net capital assets decreased primarily because of annual depreciation expense. Major capital asset additions included the following:

- Fire truck equipment amounting to \$133,878.
- Two rescue boats totaling \$46,056.
- Fire station construction expenses totaling \$168,262.

Accounts payable increased due to the accrual of construction expenses for a new fire station. Long-term liabilities decreased due to the payment of annual principal payments of \$668,331.

# Montgomery County Emergency Services District No. 10

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

### Statement of Activities:

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

	Governmental Activities	
	2014	2013
<b>Revenues</b>		
General revenues:		
Property taxes	\$ 4,728,037	\$ 4,979,328
Sales taxes	566,873	-
Other	14,119	259,170
Investment income	11,275	8,048
<b>Total Revenues</b>	<u>5,320,304</u>	<u>5,246,546</u>
<b>Expenses</b>		
Public safety	4,490,160	4,049,352
Interest and fiscal charges	247,179	284,650
<b>Total Expenses</b>	<u>4,737,339</u>	<u>4,334,002</u>
<b>Change in Net Position</b>	582,965	912,544
Beginning Net Position	<u>8,956,089</u>	<u>8,043,545</u>
<b>Ending Net Position</b>	<u>\$ 9,539,054</u>	<u>\$ 8,956,089</u>

The District reported an increase in net position of \$582,965. This is primarily due to the imposition of a 1% sales tax within the District. Sales tax receipts commenced in December of the current year. The decline in other revenues is a result of greater wildfire firefighting reimbursements received in the prior year.

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

# Montgomery County Emergency Services District No. 10

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

The District's general fund reflects a fund balance of \$3,868,428. There was an increase in the fund balance of \$428,422 over the prior year. This increase is primarily attributed to the imposition of sales taxes in the current year. The District did not impose sales taxes in the prior year.

The debt service fund reflects a fund balance of \$289,976 as of December 31, 2014. There was an increase in fund balance of \$10,672, which is relatively consistent with the prior year.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual general fund revenues were less than final budgeted revenues by \$526,615 during the year. Actual general fund expenditures were less than the final budget by \$2,955,037. This is primarily due to actual capital outlay expenditures being less than the final budgeted amount by \$2,950,834. Additionally, other financing sources of \$2,000,000 were budgeted for but were not received during the current year. These variances were the primary reasons for a net positive overall variance of \$428,422.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District is located in Montgomery County, Texas. The overall continued development within the District will continue to fuel increased property and sales tax receipts in the coming year.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be directed to Municipal Accounts & Consulting, LP, 200 River Pointe, Suite 240, Conroe, Texas, 77304, telephone (936) 647-4068.

## ***FINANCIAL STATEMENTS***

(This page is intentionally left blank.)



# Montgomery County

## Emergency Services District No. 10

### STATEMENT OF NET POSITION

December 31, 2014

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 3,430,505
Investments	2,640,000
Receivables:	
Property taxes	2,354,145
Sales taxes	406,568
Other	42,390
Prepaid expenses	495,091
<b>Total Assets</b>	<u>9,368,699</u>
<b>Non-Current Assets</b>	
Capital assets	
Capital assets - non-depreciable	1,515,497
Capital assets - net depreciable	9,757,752
<b>Total Non-Current Assets</b>	<u>11,273,249</u>
<b>Total Assets</b>	<u><u>20,641,948</u></u>
<b><u>Liabilities</u></b>	
<b>Current Liabilities</b>	
Accounts payable and accrued expenses	99,626
Unearned revenue	4,959,561
Accrued interest	143,834
<b>Total Current Liabilities</b>	<u>5,203,021</u>
<b>Long-term liabilities</b>	
Due within a year	697,842
Due in more than one year	5,202,031
<b>Total Liabilities</b>	<u>11,102,894</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	5,373,376
Restricted	289,976
Unrestricted	3,875,702
<b>Total Net Position</b>	<u><u>\$ 9,539,054</u></u>

See Notes to Financial Statements.

(This page is intentionally left blank.)

**Montgomery County**  
**Emergency Services District No. 10**

*STATEMENT OF ACTIVITIES*

For the Year Ended December 31, 2014

	<u>Governmental Activities</u>
<b><u>General Revenue</u></b>	
Property taxes	\$ 4,728,037
Sales taxes	566,873
Other revenues	14,119
Investment income	11,275
<b>Total Revenues</b>	<u>5,320,304</u>
 <b><u>Expenses</u></b>	
Public Safety	4,490,160
Interest and fiscal charges	247,179
<b>Total Expenses</b>	<u>4,737,339</u>
<b>Change in Net Position</b>	<u>582,965</u>
Beginning Net Position	<u>8,956,089</u>
<b>Ending Net Position</b>	<u><u>\$ 9,539,054</u></u>

See Notes to Financial Statements.

(This page is intentionally left blank.)

# Montgomery County Emergency Services District No. 10

## BALANCE SHEET AND RECONCILIATION TO THE STATEMENT OF NET POSITION December 31, 2014

	General Fund	Debt Service Fund	Total
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 1,008,958	\$ 2,421,547	\$ 3,430,505
Investments	2,400,000	240,000	2,640,000
Receivables:			
Property taxes	2,338,140	16,005	2,354,145
Sales taxes	406,568	-	406,568
Other	42,173	217	42,390
Prepaid expenses	495,091	-	495,091
Due from other funds	2,371,788	-	2,371,788
<b>Total Assets</b>	<b>\$ 9,062,718</b>	<b>\$ 2,677,769</b>	<b>\$ 11,740,487</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 99,626	\$ -	\$ 99,626
Due to other funds	-	2,371,788	2,371,788
<b>Total Liabilities</b>	<b>99,626</b>	<b>2,371,788</b>	<b>2,471,414</b>
<b><u>Deferred Inflows of Resources</u></b>			
Unavailable revenue - property taxes	5,094,664	16,005	5,110,669
<b>Total Deferred Inflows of Resources</b>	<b>5,094,664</b>	<b>16,005</b>	<b>5,110,669</b>
<b><u>Fund balance</u></b>			
Fund Balance:			
Restricted for debt service	-	289,976	289,976
Unassigned	3,868,428	-	3,868,428
<b>Total Fund Balance</b>	<b>\$ 3,868,428</b>	<b>\$ 289,976</b>	<b>\$ 4,158,404</b>
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			1,515,497
Capital assets, net depreciable			9,757,752
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.			
Delinquent property taxes receivable			151,108
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			(143,834)
Non-current liabilities due in one year			(697,842)
Non-current liabilities due in more than one year			(5,202,031)
<b>Net Position of Governmental Activities</b>			<b>\$ 9,539,054</b>

See Notes to Financial Statements.

# Montgomery County

## Emergency Services District No. 10

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended December 31, 2014

	General Fund	Debt Service Fund	Total
<b>General Revenue</b>			
Property taxes	\$ 4,713,850	\$ 9,712	\$ 4,723,562
Sales taxes	566,873	-	566,873
Other revenues	14,119	-	14,119
Investment income	10,315	960	11,275
<b>Total Revenues</b>	5,305,157	10,672	5,315,829
<b>Expenditures</b>			
Public safety	3,278,547	-	3,278,547
Capital outlay	667,978	-	667,978
Debt service:			
Principal	668,331	-	668,331
Interest	261,879	-	261,879
<b>Total Expenditures</b>	4,876,735	-	4,876,735
<b>Net Change in Fund Balance</b>	428,422	10,672	439,094
Beginning Fund Balance	3,440,006	279,304	3,719,310
<b>Ending Fund Balance</b>	\$ 3,868,428	\$ 289,976	\$ 4,158,404

See Notes to Financial Statements.

# Montgomery County

## Emergency Services District No. 10

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

**For the Year Ended December 31, 2014**

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

Net change in fund balance	\$	439,094
<p>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.</p>		
Capital outlays		445,745
Depreciation		(989,380)
<p>Revenue in the statement of activities that does not provide current financial resources are not reported as revenue in the funds.</p>		
		4,475
<p>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.</p>		
Accrued interest		14,700
<p>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.</p>		
Principal payments		668,331
<b>Change in Net Position</b>	<b>\$</b>	<b><u>582,965</u></b>

See Notes to Financial Statements.

(This page is intentionally left blank.)



# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

### 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. 10 (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 1996. 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 is funded by property taxes as paid to it by its citizens. The District's primary responsibility is to provide fire fighting facilities, fire suppression, and rescue services for its citizens. As the District does not employ personnel to provide such facilities and services, the District entered into a contract ("Service Agreement") with the Magnolia Volunteer Fire Department ("Department"). The Department is a duly qualified and sufficiently staffed entity located within the District and can provide desired fire fighting facilities and services. The Service Agreement stipulates that the Department provide the facilities and services. For such services, the District will provide sufficient funds for the overall operations and payroll of the Department.

The Service Agreement is effective for a three year period commencing on January 1, 2012 and continuing through December 31, 2014, and shall continue as provided unless explicitly terminated. The Service Agreement was renewed for an additional three year period, commencing on January 1, 2015.

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

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

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. Likewise, the *primary government* is reported separately from certain legally separate units for which the primary government is financially accountable.

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.

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

### Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all long-term debt of the District. The primary source of revenue for debt service is property taxes pursuant to requirements of the District's debt resolutions. Expenditures include costs incurred in assessing and collecting these taxes.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However,

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

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. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

### 2. Receivables and Interfund Transactions

Transactions between funds that are representative of the transfer of resources arrangements outstanding at the end of the year are referred to as “due to/from other funds” in the fund statements. Further, the activity occurring during the year involving these transfers of resources between funds are reported at gross amounts as transfers in/out.

### 3. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the District.

### 4. Capital Assets

Capital assets, which include property, plant, equipment, and vehicle assets (e.g., fire trucks, building, fire apparatus, and similar items) are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an 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 District 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	7 years
Buildings and improvements	30 years

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

### 5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

### 6. Unearned Revenue

Unearned revenue represents revenues collected but not earned as of December 31, 2014. This is primarily composed of revenue for levied property taxes for the subsequent tax year that were collected during the current fiscal year.

### 7. 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.

### 8. 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

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

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.

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

### **10. Long-Term Obligations**

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

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.

### 11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 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

The District’s investment policy requires full collateralization of all time and bank deposits consistent with Chapter 2257 of the Public Funds Collateral Act. As of December 31, 2014 the all accounts were either fully insured or collateralized.

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.



# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2014

A budget is prepared by fund and function. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year. Total actual expenditures did not exceed appropriations for the year ending December 31, 2014.

### IV. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

As of December 31, 2014, the District had the following investments:

Investments Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 2,640,000	0.27
External investment pools	868,041	-
Total fair value	\$ 3,508,041	
Portfolio weighted average maturity		0.20

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. All accounts were fully collateralized for amounts beyond insurance coverage as of year end.

The District invests in TexPool. At year end, the fair value of TexPool investments was \$868,041. 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.

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

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.

### A. Receivables

The following comprise receivable balances of the District at year end:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property taxes	\$ 2,338,140	\$ 16,005	\$ 2,354,145
Sales taxes	406,568	-	406,568
Other	42,173	217	42,390
<b>Total</b>	<u>\$ 2,786,881</u>	<u>\$ 16,222</u>	<u>\$ 2,803,103</u>

### B. Due To/From Other Funds

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

The due to/due from balances outstanding as of December 31, 2014 were as follows:

	<u>Due to:</u>
<u>Due from:</u>	<u>General</u>
Debt Service	\$ 2,371,788
<b>Total</b>	<u>\$ 2,371,788</u>

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2014

### C. Capital Assets

The following is a summary of changes in capital assets for the year ended:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,492,519	\$ 22,978	\$ -	\$ 1,515,497
Total capital assets not being depreciated	<u>1,492,519</u>	<u>22,978</u>	<u>-</u>	<u>1,515,497</u>
Capital assets, being depreciated:				
Office equipment	229,731	5,300	-	235,031
Buildings	6,633,366	168,262	-	6,801,628
Vehicles and equipment	11,711,065	249,205	-	11,960,270
Total capital assets being depreciated	<u>18,574,162</u>	<u>422,767</u>	<u>-</u>	<u>18,996,929</u>
Less accumulated depreciation				
Office equipment	(163,213)	(25,259)	-	(188,472)
Buildings	(1,610,856)	(221,306)	-	(1,832,162)
Vehicles and equipment	(6,475,728)	(742,815)	-	(7,218,543)
Total accumulated depreciation	<u>(8,249,797)</u>	<u>(989,380)</u>	<u>-</u>	<u>(9,239,177)</u>
Net capital assets being depreciated	<u>10,324,365</u>	<u>(566,613)</u>	<u>-</u>	<u>9,757,752</u>
<b>Total capital assets</b>	<u>\$ 11,816,884</u>	<u>\$ (543,635)</u>	<u>\$ -</u>	<u>\$ 11,273,249</u>

The majority of the capital asset additions occurring during the year relates to the purchase of fire truck equipment amounting to \$133,878, purchase of two rescue boats for \$46,056, and fire station construction expenses totaling \$168,262. The book value of leased assets as of yearend was \$3,003,542.

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

### D. Long-Term Obligations

The following is a summary of long-term obligations for the year ended December 31, 2014:

	Balance at 12/31/2013	Increases	Decreases	Balance at 12/31/2014	Due within a year
<b>Governmental Activities:</b>					
Capital leases:					
Three vehicles, due in semi-annual installments through 2020, interest at 4.38%	\$ 1,151,779	\$ -	\$ (155,089)	\$ 996,690	\$ 163,728
Fire trucks/equipment, due in semi-annual installments through 2022, interest at 2.22%	2,001,206	-	(202,110)	1,799,096	207,768
Note Payable:					
Station construction, due in annual installments through 2022, interest at 4.89%	3,415,219	-	(311,132)	3,104,087	326,346
	<u>\$ 6,568,204</u>	<u>\$ -</u>	<u>\$ (668,331)</u>	<u>\$ 5,899,873</u>	<u>\$ 697,842</u>
			Due in more than one year	<u>\$ 5,202,031</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2014

As of December 31, 2014, the debt service requirements are as follows:

Year ending December 31,	Capital Leases		Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 371,496	\$ 80,576	\$ 326,346	\$ 151,790	\$ 697,842	\$ 232,366
2016	383,384	68,688	342,304	135,832	725,688	204,520
2017	395,697	56,375	359,043	119,093	754,740	175,468
2018	408,450	43,622	376,600	101,536	785,050	145,158
2019	421,662	30,410	395,016	83,120	816,678	113,530
2020	332,588	16,716	414,332	63,804	746,920	80,520
2021	237,196	9,340	434,593	43,543	671,789	52,883
2022	245,313	4,038	455,852	22,282	701,166	26,320
<b>Total</b>	<u>\$ 2,795,786</u>	<u>\$ 309,765</u>	<u>\$ 3,104,086</u>	<u>\$ 721,000</u>	<u>\$ 5,899,873</u>	<u>\$ 1,030,765</u>

## V. OTHER INFORMATION

### A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

### B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

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

# Montgomery County Emergency Services District No. 10

## NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2014

### C. Restatement

As a result of the correction in accounting errors, the District restated its beginning net position within government activities for the following reasons. Delinquent property tax accounts receivable were improperly deferred at yearend rather than recognized as revenue. Revenue collected for property taxes intended to fund the subsequent fiscal year was improperly recognized as revenue when collected rather than deferred at yearend. Accrued interest on outstanding debt was not recognized at yearend. Expenses recorded for amounts owed to the volunteer fire department were overstated. The restatement of beginning net position is as follows:

	<b>Governmental Activities</b>
Prior year ending net position, as reported	\$ 11,405,442
Recognition of delinquent property taxes as revenue	146,633
Correction for understatement of unearned revenue at the end of year	(2,497,732)
Correction for overstatement of payments to fire department	60,280
Recognition of accrued interest on debt	(158,534)
Restated beginning net position	<u>\$ 8,956,089</u>

As a result of the correction in accounting errors, the District restated its beginning general fund balance as listed below.

	<b>General Fund</b>
Fund balance, as reported	\$ 5,877,457
Correction for overstatement of payments to fire department	60,281
Correction for understatement of unearned revenue at end of year	(2,497,732)
Restated beginning net position	<u>\$ 3,440,006</u>

### D. Subsequent Events

Subsequent to 2014, the District purchased two fire trucks for a total of \$1,069,710.

***REQUIRED SUPPLEMENTARY INFORMATION***

(This page is intentionally left blank.)



**Montgomery County**  
**Emergency Services District No. 10**  
*BUDGETARY COMPARISON SCHEDULE - GENERAL FUND*  
For the Year Ended December 31, 2014

	Original & Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Property taxes	\$ 4,680,027	\$ 4,713,850	\$ 33,823
Sales tax	-	566,873	566,873
Other revenues	1,144,875	14,119	(1,130,756)
Investment earnings	6,870	10,315	3,445
<b>Total Revenues</b>	5,831,772	5,305,157	(526,615)
<b>Expenditures</b>			
Public safety	3,282,750	3,278,547	4,203
Capital outlay	3,618,812	667,978	2,950,834
Debt service:			
Principal	671,151	668,331	2,820
Interest	259,059	261,879	(2,820) *
<b>Total Expenditures</b>	7,831,772	4,876,735	2,955,037
<b>Other Financing Sources (Uses)</b>			
Loan proceeds	2,000,000	-	(2,000,000)
<b>Total Financing Sources (Uses)</b>	2,000,000	-	(2,000,000)
<b>Net Change in Fund Balance</b>	\$ -	428,422	\$ 428,422
Beginning Fund Balance		3,440,006	
<b>Ending Fund Balance</b>		\$ 3,868,428	

Notes to Required Supplementary Information:

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

\* 2. Expenditures exceeded appropriations at the legal level of control