

ANNUAL FINANCIAL REPORT

of the

Montgomery County Emergency Services District No. 10

For the Year Ended

December 31, 2015



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Montgomery County Emergency Services District No. 10

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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, each major fund of the Montgomery County Emergency Services District No. 10 (the "District"), as of and for the year ended December 31, 2015, 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, 2015, 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.

Emphasis of Matter

As disclosed in Note V.D., in the year ending December 31, 2015, the District restated its net position for governmental activities and general fund balance as of December 31, 2014 to correct a misstatement. Our opinion is not modified with respect to this matter.

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,



BrooksCardiel, PLLC
The Woodlands, Texas
June 21, 2016

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

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Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2015

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, 2015. 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, 2015

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, 2015

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 a portion of 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 \$11,738,654 as of yearend. Unrestricted net position, \$4,568,265, 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, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	2015	2014
Current and other assets	\$ 10,894,769	\$ 9,422,699
Capital assets, net	12,628,130	11,273,249
Total Assets	23,522,899	20,695,948
Accounts payable and accrued expenses	254,761	243,460
Long-term liabilities	6,075,260	5,899,873
Total Liabilities	6,330,021	6,143,333
Deferred inflows of Resources - property taxes	5,454,224	4,959,561
Total Deferred Inflows of Resources	5,454,224	4,959,561
Net Position:		
Net investment in		
capital assets	6,497,758	5,373,376
Restricted	672,631	289,976
Unrestricted	4,568,265	3,929,702
Total Net Position	\$ 11,738,654	\$ 9,593,054

Current and other assets increased due to increases in cash and receivables primarily due to an increase in sales tax revenue.

Net capital assets increased due to capital additions during the year net of annual depreciation expense. Major capital asset additions included the following:

- Emergency vehicles and equipment totaling \$1,401,641.
- Fire station construction costs totaling \$1,020,723.

Long-term liabilities consist of capital lease obligations amounting to \$2,424,289 and notes payable totaling \$3,650,971. For further information on long term debt, see note IV. F. within the footnotes to the financial statements.

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

Statement of Activities:

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

	Governmental Activities	
	2015	2014
Revenues		
General revenues:		
Property taxes	\$ 5,001,280	\$ 4,728,037
Sales taxes	2,723,285	620,873
Other	25,168	14,119
Investment income	10,168	11,275
Gain on sale of property	58,148	-
Total Revenues	7,818,049	5,374,304
Expenses		
Public safety	5,451,153	4,490,160
Interest and fiscal charges	221,296	247,179
Total Expenses	5,672,449	4,737,339
Change in Net Position	2,145,600	636,965
Beginning Net Position	9,593,054	8,956,089
Ending Net Position	\$ 11,738,654	\$ 9,593,054

The District reported an increase in net position of \$2,145,600. This is primarily due to the imposition of a 1% sales tax within the District. Sales tax receipts commenced in December of the prior year. Increases to public safety costs were primarily due to increases in the fire department staffing and payroll during the 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

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

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 \$4,869,506. There was an increase in the fund balance of \$947,078 over the prior year. This increase is primarily attributed to the imposition of sales taxes for the full year in the current year. The District did not collect sales taxes for the full year in prior year.

The debt service fund reflects a fund balance of \$293,389 as of December 31, 2014. There was an increase in fund balance of \$3,413, which is relatively consistent with the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than final budgeted revenues by \$451,552 during the year. Actual general fund expenditures were less than the final budget by \$1,243,639. This is primarily due to actual capital outlay expenditures being less than the final budgeted amount by \$1,358,422. Additionally, other financing sources exceeded the budget by \$121,285 due to proceeds from sale of property. These variances were the primary reasons for a net positive overall variance of \$1,816,476.

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

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Montgomery County

Emergency Services District No. 10

STATEMENT OF NET POSITION

December 31, 2015

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 4,602,967
Investments	1,880,000
Receivables:	
Property taxes	3,095,076
Sales taxes	545,698
Other	166,538
Prepaid expenses	604,490
Total Current Assets	<u>10,894,769</u>
Non-Current Assets	
Capital assets	
Capital assets - non-depreciable	2,857,371
Capital assets - net depreciable	9,945,648
Total Non-Current Assets	<u>12,803,019</u>
Total Assets	<u><u>23,697,788</u></u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued expenses	296,956
Accrued interest	132,694
Long-term liabilities due within a year	933,260
Total Current Liabilities	<u>1,362,910</u>
Long-term liabilities	
Due in more than one year	5,142,000
Total Liabilities	<u>6,504,910</u>
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - property tax collections related to next year	2,514,731
Unavailable revenue - receivable for next year property tax	2,939,493
Total Deferred Inflows of Resources	<u>5,454,224</u>
<u>Net Position</u>	
Net investment in capital assets	6,497,758
Restricted	672,631
Unrestricted	4,568,265
Total Net Position	<u><u>\$ 11,738,654</u></u>

See Notes to Financial Statements.

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Montgomery County
Emergency Services District No. 10

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

	<u>Governmental Activities</u>
<u>General Revenue</u>	
Property taxes	\$ 5,001,280
Sales taxes	2,723,285
Other revenues	25,168
Investment income	10,168
Gain on sale of property	58,148
Total Revenues	<u>7,818,049</u>
 <u>Expenses</u>	
Public safety	5,451,153
Interest and fiscal charges	221,296
Total Expenses	<u>5,672,449</u>
Change in Net Position	<u>2,145,600</u>
Beginning Net Position	<u>9,593,054</u>
Ending Net Position	<u><u>\$ 11,738,654</u></u>

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 10

BALANCE SHEET

December 31, 2015

	General Fund	Debt Service Fund	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 2,132,417	\$ 2,470,550	\$ 4,602,967
Investments	1,880,000	-	1,880,000
Receivables:			
Property taxes	3,080,778	14,298	3,095,076
Sales taxes	545,698	-	545,698
Other	166,538	-	166,538
Prepaid expenses	604,490	-	604,490
Due from other funds	2,177,161	-	2,177,161
Total Assets	\$ 10,587,082	\$ 2,484,848	\$ 13,071,930
<u>Liabilities</u>			
Accounts payable and accrued expenses	\$ 296,956	\$ -	\$ 296,956
Due to other funds	-	2,177,161	2,177,161
Total Liabilities	296,956	2,177,161	2,474,117
<u>Deferred Inflows of Resources</u>			
Unavailable rev. - prop. tax collections	2,514,731	-	2,514,731
Unavailable revenue - prop. tax receivable	3,080,778	14,298	3,095,076
Total Deferred Inflows of Resources	5,595,509	14,298	5,609,807
<u>Fund balance</u>			
Nonspendable:			
Prepaid items	604,490	-	604,490
Restricted for:			
Restricted for debt service	-	293,389	293,389
Restricted for capital projects	379,242	-	379,242
Unassigned	3,710,885	-	3,710,885
Total Fund Balance	\$ 4,694,617	\$ 293,389	\$ 4,988,006

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 10

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION December 31, 2015

Total fund balance	\$	4,988,006
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		2,857,371
Capital assets, net depreciable		9,945,648
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		155,583
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		(132,694)
Non-current liabilities due in one year		(933,260)
Non-current liabilities due in more than one year		(5,142,000)
Net Position of Governmental Activities	\$	<u>11,738,654</u>

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, 2015

	General Fund	Debt Service Fund	Total
General Revenue			
Property taxes	\$ 4,994,788	\$ 2,017	\$ 4,996,805
Sales taxes	2,723,285	-	2,723,285
Other revenues	25,168	-	25,168
Investment income	8,701	1,467	10,168
Total Revenues	7,751,942	3,484	7,755,426
Expenditures			
Public safety	4,444,693	-	4,444,693
Capital outlay	2,608,895	-	2,608,895
Debt service:			
Principal	697,844	-	697,844
Interest	232,365	71	232,436
Total Expenditures	7,983,797	71	7,983,868
Other Financing Sources (Uses)			
Sale of property	130,813	-	130,813
Loan proceeds	873,231	-	873,231
Total Financing Sources (Uses)	1,004,044	-	1,004,044
Net Change in Fund Balance	772,189	3,413	775,602
Beginning Fund Balance	3,922,428	289,976	4,212,404
Ending Fund Balance	\$ 4,694,617	\$ 293,389	\$ 4,988,006

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, 2015

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

Net change in fund balance	\$	775,602
<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		2,608,895
Depreciation		(1,006,460)
Book value of disposed property		(72,665)
<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		11,140
<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		697,844
Borrowings		(873,231)
Change in Net Position	\$	<u><u>2,145,600</u></u>

See Notes to Financial Statements.

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Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 primarily 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 has been extended several times and the latest extension is through September 9, 2016.

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.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2015

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 for 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, 2015

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on 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.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2015

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. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2015

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, 2015

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. 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.

7. 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.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2015

8. 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.

9. Long-Term Obligations

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

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2015

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.

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, 2015 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.

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. Expenditures for public safety exceeded appropriations by \$114,783 during the year. Total actual expenditures did not exceed appropriations for the year ending December 31, 2015.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2015

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of December 31, 2015, the District had the following investments:

<u>Investments Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 1,880,000	0.05
External investment pools	1,815,509	0.11
Total fair value	<u>\$ 3,695,509</u>	
Portfolio weighted average maturity		0.08

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State.

Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds.

Custodial Credit Risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. 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 \$1,815,509. TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters.

Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts, for review. TexPool operates in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of their shares.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2015

B. 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	\$ 3,080,778	\$ 14,298	\$ 3,095,076
Sales taxes	545,698	-	545,698
Other	166,538	-	166,538
Total	<u>\$ 3,793,014</u>	<u>\$ 14,298</u>	<u>\$ 3,807,312</u>

C. 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, 2015 were as follows:

	<u>Due to:</u>
<u>Due from:</u>	<u>General</u>
Debt Service	\$ 2,177,161
Total	<u>\$ 2,177,161</u>

D. Fund Equity

The District records restricted net position on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation. Total restricted net position for the District was \$672,631.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2015

E. Capital Assets

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

Governmental Activities:	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 1,515,497	\$ -	\$ -	\$ 1,515,497
Construction in progress	146,262	1,195,612	-	1,341,874
Total capital assets not being depreciated	<u>1,661,759</u>	<u>1,195,612</u>	<u>-</u>	<u>2,857,371</u>
Capital assets, being depreciated:				
Office equipment	235,031	-	-	235,031
Buildings	6,655,366	11,642	-	6,667,008
Vehicles and equipment	11,960,270	1,401,641	(712,668)	12,649,243
Total capital assets being depreciated	<u>18,850,667</u>	<u>1,413,283</u>	<u>(712,668)</u>	<u>19,551,282</u>
Less accumulated depreciation				
Office equipment	(188,472)	(22,828)	-	(211,300)
Buildings	(1,832,162)	(221,855)	640,003	(1,414,014)
Vehicles and equipment	(7,218,543)	(761,777)	-	(7,980,320)
Total accumulated depreciation	<u>(9,239,177)</u>	<u>(1,006,460)</u>	<u>640,003</u>	<u>(9,605,634)</u>
Net capital assets being depreciated	<u>9,611,490</u>	<u>406,823</u>	<u>(72,665)</u>	<u>9,945,648</u>
Total capital assets	<u><u>\$ 11,273,249</u></u>	<u><u>\$ 1,602,435</u></u>	<u><u>\$ (72,665)</u></u>	<u><u>\$ 12,803,019</u></u>

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2015

F. Long-Term Obligations

The following is a summary of long-term obligations for the year ended December 31, 2015:

	Balance at 12/31/2014	Increases	Decreases	Balance at 12/31/2015	Due within a year
Governmental Activities:					
Capital leases:					
Three vehicles, due in semi-annual installments through 2020, interest at 4.38%	\$ 996,690	\$ -	\$ (163,729)	\$ 832,961	\$ 170,978
Fire trucks/equipment, due in semi-annual installments through 2022, interest at 2.22%	1,799,096	-	(207,768)	1,591,328	212,406
Notes Payable:					
Station construction, due in annual installments through 2022, interest at 4.89%	3,104,087	-	(326,347)	2,777,740	342,304
¹ Station construction, due in semi-annual installments through 2025, interest at 2.00%	-	873,231	-	873,231	207,572
	\$ 5,899,873	\$ 873,231	\$ (697,844)	\$ 6,075,260	\$ 933,260
			Due in more than one year	\$ 5,142,000	

¹ This is a construction loan that is being funded as the construction is completed via draw requests. The total amount agreed to be funded is \$3,956,000, and the total draws funded as of December 31, 2015 was \$873,231. The District estimates the full amount will be borrowed by the conclusion of the underlying construction projects. The current portion calculated within this table, and the anticipated future debt repayments shown in the subsequent disclosure, are based on the full note amount of \$3,956,000.

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, 2015

Future debt service requirements are as follows:

Year ending December 31,	Capital Leases		Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 383,384	\$ 68,688	\$ 549,876	\$ 184,152	\$ 933,260	\$ 252,840
2017	395,697	56,375	769,258	192,021	1,164,955	248,396
2018	408,450	43,622	795,060	166,218	1,203,510	209,840
2019	421,662	30,410	821,887	139,391	1,243,549	169,801
2020	332,588	16,716	849,784	111,495	1,182,372	128,211
2021	237,196	9,340	878,797	82,482	1,115,993	91,822
2022	245,312	4,038	908,984	52,292	1,154,296	56,330
2023	-	-	462,240	20,902	462,240	20,902
2024	-	-	471,531	11,611	471,531	11,611
2025	-	-	226,323	2,263	226,323	2,263
Total	\$ 2,424,289	\$ 229,189	\$ 6,733,740	\$ 962,827	\$ 9,158,029	\$ 1,192,016

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, 2015

C. Commitments

On June 15, 2015, the District signed a promissory note for \$3,956,000. The note proceeds will be used to fund construction of three fire stations, #187, 188, and 189. The note is being funded as draw requests are made for these construction projects. As of December 31, 2015, \$873,231 had been funded leaving an unfunded balance of \$3,083,769. The District anticipates the loan will be fully funded at the conclusion of the construction projects.

D. Restatement

As a result of a correction of an accounting error on the accrual for sales tax receivable, the District restated its beginning net position within government activities and beginning fund balance with the general fund. The restatement of beginning net position is as follows:

	Governmental Activities
Prior year ending net position, as reported	\$ 9,539,054
Correction of sales tax receivable	54,000
Restated beginning net position	<u>\$ 9,593,054</u>

The District restated its beginning general fund balance as listed below.

	General Fund
Fund balance, as reported	\$ 3,868,428
Correction of sales tax receivable	54,000
Restated beginning net position	<u>\$ 3,922,428</u>

E. Subsequent Events

Subsequent to yearend, the District enrolled all eligible employees in a retirement, disability, and death benefits 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 656 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.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2015

As a part of the start of the pension plan, the District approved payment of \$345,285 to TCDRS for prior service cost.

Subsequent to yearend, the District took draws on its construction loan for fire stations #187, 188, and 189 totaling \$1,244,491.

There were no other material subsequent events through the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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Montgomery County
Emergency Services District No. 10
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended December 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Property taxes	\$ 4,775,517	\$ 4,775,517	\$ 4,994,788	\$ 219,271
Sales tax	900,000	2,500,000	2,723,285	223,285
Other revenues	16,875	19,293	25,168	5,875
Investment earnings	7,150	5,580	8,701	3,121
Total Revenues	<u>5,699,542</u>	<u>7,300,390</u>	<u>7,751,942</u>	<u>451,552</u>
Expenditures				
Public safety	4,480,382	4,329,910	4,444,693	(114,783) *
Capital outlay	2,031,580	3,792,428	2,608,895	1,183,533
Debt service:				
Principal	697,844	697,844	697,844	-
Interest	232,365	232,365	232,365	-
Total Expenditures	<u>7,442,171</u>	<u>9,052,547</u>	<u>7,983,797</u>	<u>1,068,750</u>
Other Financing Sources (Uses)				
Sale of property	-	9,528	130,813	121,285
Loan proceeds	873,231	873,231	873,231	-
Total Financing Sources (Uses)	<u>873,231</u>	<u>882,759</u>	<u>1,004,044</u>	<u>121,285</u>
Net Change in Fund Balance	<u>\$ (869,398)</u>	<u>\$ (869,398)</u>	772,189	<u>\$ 1,641,587</u>
Beginning Fund Balance			<u>3,922,428</u>	
Ending Fund Balance			<u>\$ 4,694,617</u>	

Notes to Required Supplementary Information:

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

* 2. Expenditures exceeded appropriations.

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