

ANNUAL FINANCIAL REPORT

of the

Montgomery County Emergency Services District No. 10

For the Year Ended

December 31, 2016



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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, and each major fund of the Montgomery County Emergency Services District No. 10 (the "District"), as of and for the year ended December 31, 2016, 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, 2016, 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 black ink that reads "Brooks Cardiel, PLLC". The signature is written in a cursive, flowing style.

BrooksCardiel, PLLC
The Woodlands, Texas
June 5, 2017

***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, 2016

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, 2016. 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, 2016

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, 2016

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

Net position may serve over time as a useful indicator of the District's financial position. For the District, assets exceeded liabilities by \$13,124,825 as of yearend. Unrestricted net position, \$3,733,473, 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, 2016

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	2016	2015
Current and other assets	\$ 10,293,247	\$ 10,894,769
Capital assets, net	17,057,977	12,628,130
Total Assets	27,351,224	23,522,899
Deferred outflows of resources	383,186	-
Total Deferred Outflows of Resources	383,186	-
Accounts payable and accrued expenses	406,738	254,761
Long-term liabilities	7,897,709	6,075,260
Total Liabilities	8,304,447	6,330,021
Deferred inflows of resources - property taxes	6,305,138	5,454,224
Total Deferred Inflows of Resources	6,305,138	5,454,224
Net Position:		
Net investment in capital assets	8,915,060	6,497,758
Restricted	476,292	672,631
Unrestricted	3,733,473	4,568,265
Total Net Position	\$ 13,124,825	\$ 11,738,654

Current and other assets decreased due to decreases in cash and investments, primarily due an increase in payroll, fire department expenditures, and capital outlay purchases.

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

- Completion of Station #188 totaling \$1,711,036
- Completion of Station #189 totaling \$1,468,966
- Fire station #187 construction costs totaling \$811,274
- Office equipment totaling \$56,391
- Fire truck purchases totaling \$2,228,139
- Additional vehicle purchases totaling \$98,808
- Various equipment totaling \$57,334

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2016

Deferred outflows increased due to the District participating in Texas County and District Retirement System during the current year, of which 90% relates to funding for prior years. Deferred inflows increased due primarily to property tax collections related to next year, which is a direct result of the increase in assessed property values.

Long-term liabilities consist of capital lease obligations amounting to \$2,040,904 and notes payable totaling \$5,844,859. For further information on long term debt, see note IV. F. within the footnotes to the financial statements.

Statement of Activities:

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

	Governmental Activities	
	2016	2015
Revenues		
General revenues:		
Property taxes	5,546,444	5,001,280
Sales taxes	3,250,217	2,723,285
Other	17,544	25,168
Investment income	14,929	10,168
Gain on sale of property	328	58,148
Total Revenues	8,829,462	7,818,049
Expenses		
Public safety	7,204,109	5,451,153
Interest and fiscal charges	239,182	221,296
Total Expenses	7,443,291	5,672,449
Change in Net Position	1,386,171	2,145,600
Beginning Net Position	11,738,654	9,593,054
Ending Net Position	\$ 13,124,825	\$ 11,738,654

The District reported an increase in net position of \$1,386,171. Property taxes increase primarily related to an increase in appraised values, and sales taxes increased due to an increase in economic activity with the District. Increases to public safety costs were primarily due to increases in the fire department payroll during the year.

Montgomery County Emergency Services District No. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The District's general fund reflects a fund balance of \$3,214,548. There was a decrease in the fund balance of \$1,480,069 from the prior year. This decrease is primarily attributed to the increases in capital outlay purchases.

The debt service fund reflects a fund balance of \$299,121 as of December 31, 2016. There was an increase in fund balance of \$5,732, which is relatively consistent with the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than final budgeted revenues by \$959,325 during the year. This is primarily due to more collections on property and sales taxes than expected by \$203,090 and \$750,217, respectively. Actual general fund expenditures were more than the final budget by \$1,639,673. This is due to actual public safety and capital outlay expenditures being more than the final budgeted amounts by \$328,682 and \$1,336,353, respectively. Other financing sources resulted in a positive variance of \$2,740,279, primarily due to loan proceeds of \$2,749,951 not being budgeted for. These variances were the primary reasons for a net positive overall variance of \$2,059,931.

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, 611 Longmire Road, Conroe, Texas, 77304, telephone (936) 647-4024.MDA

FINANCIAL STATEMENTS

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Montgomery County Emergency Services District No. 10

STATEMENT OF NET POSITION

December 31, 2016

	Governmental Activities
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 5,330,015
Investments	720,000
Receivables:	
Property taxes	2,952,456
Sales taxes	550,095
Other	95,816
Prepaid expenses	644,865
Total Current Assets	10,293,247
Non-Current Assets	
Capital assets	
Capital assets - non-depreciable	2,574,291
Capital assets - net depreciable	14,483,686
Total Non-Current Assets	17,057,977
Total Assets	27,351,224
<u>Deferred Outflows of Resources</u>	
Pension contributions	383,186
Total Deferred Outflows of Resources	383,186
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued expenses	288,941
Accrued interest	117,797
Long-term liabilities due within a year	1,183,713
Total Current Liabilities	1,590,451
Long-term liabilities	
Due in more than one year	6,713,996
Total Liabilities	8,304,447
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - property tax collections related to next year	3,534,599
Unavailable revenue - receivable for next year property tax	2,770,539
Total Deferred Inflows of Resources	6,305,138
<u>Net Position</u>	
Net investment in capital assets	8,915,060
Restricted	476,292
Unrestricted	3,733,473
Total Net Position	\$ 13,124,825

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, 2016

	<u>Governmental Activities</u>
<u>General Revenue</u>	
Property taxes	\$ 5,546,444
Sales taxes	3,250,217
Other revenues	17,544
Investment income	14,929
Gain on sale of property	328
Total Revenues	<u>8,829,462</u>
 <u>Expenses</u>	
Public safety	7,204,109
Interest and fiscal charges	239,182
Total Expenses	<u>7,443,291</u>
Change in Net Position	<u>1,386,171</u>
Beginning Net Position	<u>11,738,654</u>
Ending Net Position	<u><u>\$ 13,124,825</u></u>

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 10

BALANCE SHEET December 31, 2016

	General Fund	Debt Service Fund	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 1,628,399	\$ 3,701,616	\$ 5,330,015
Investments	720,000	-	720,000
Receivables:			
Property taxes	2,939,675	12,781	2,952,456
Sales taxes	550,095	-	550,095
Other	95,816	-	95,816
Prepaid expenses	644,865	-	644,865
Due from other funds	3,402,495	-	3,402,495
Total Assets	\$ 9,981,345	\$ 3,714,397	\$ 13,695,742
<u>Liabilities</u>			
Accounts payable and accrued expenses	\$ 288,941	\$ -	\$ 288,941
Due to other funds	-	3,402,495	3,402,495
Total Liabilities	288,941	3,402,495	3,691,436
<u>Deferred Inflows of Resources</u>			
Unavailable rev. - prop. tax collections	3,534,599	-	3,534,599
Unavailable revenue - prop. tax receivable	2,943,257	12,781	2,956,038
Total Deferred Inflows of Resources	6,477,856	12,781	6,490,637
<u>Fund balance</u>			
Nonspendable:			
Prepaid items	644,865	-	644,865
Restricted for:			
Restricted for debt service	-	299,121	299,121
Restricted for capital projects	177,171	-	177,171
Unassigned	2,392,512	-	2,392,512
Total Fund Balance	\$ 3,214,548	\$ 299,121	\$ 3,513,669

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, 2016

Total fund balance	\$	3,513,669
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		2,574,291
Capital assets, net depreciable		14,483,686
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		185,499
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.		
Pension contributions		383,186
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		(117,797)
Non-current liabilities due in one year		(1,183,713)
Non-current liabilities due in more than one year		(6,713,996)
Net Position of Governmental Activities	\$	<u>13,124,825</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, 2016

	General Fund	Debt Service Fund	Total
General Revenue			
Property taxes	\$ 5,505,490	\$ 11,038	\$ 5,516,528
Sales taxes	3,250,217	-	3,250,217
Other revenues	17,344	200	17,544
Investment income	13,547	1,382	14,929
Total Revenues	8,786,598	12,620	8,799,218
Expenditures			
Public safety	6,266,745	-	6,266,745
Capital outlay	5,563,562	-	5,563,562
Debt service:			
Principal	939,448	-	939,448
Interest	247,191	6,888	254,079
Total Expenditures	13,016,946	6,888	13,023,834
Other Financing Sources (Uses)			
Sale of property	328	-	328
Loan proceeds	2,749,951	-	2,749,951
Total Financing Sources (Uses)	2,750,279	-	2,750,279
Net Change in Fund Balance	(1,480,069)	5,732	(1,474,337)
Beginning Fund Balance	4,694,617	293,389	4,988,006
Ending Fund Balance	\$ 3,214,548	\$ 299,121	\$ 3,513,669

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, 2016

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

Net change in fund balance	\$ (1,474,337)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	5,348,019
Depreciation	(1,093,061)

Revenue in the statement of activities that does not provide current financial resources are not reported as revenue in the funds.	29,916
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest	14,897
Accrued vacation	(11,946)
Pension (expense)/income	383,186

The issuance of long-term debt provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	939,448
Borrowings	(2,749,951)
Change in Net Position	<u><u>\$ 1,386,171</u></u>

See Notes to Financial Statements.

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Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 December 31, 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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

10. Estimates

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

11. Accrued Leave/Compensated Absences

The liability for accrued sick and vacation leave reported in the government-wide financial statements consist of unpaid, accumulated sick and vacation leave. The liability has been calculated using the earned and unused accumulated hours as of December 31, 2016. Unused hours may be paid back to the District on the first day of December each year at the employee's current hourly rate of pay. Employees may not accumulate more than two fiscal years of hours. Any hours over the allowed accumulation are lost without use or financial compensation.

It is the District's policy to liquidate accrued sick and vacation leave with currently available expendable resources. Accordingly, the District's governmental funds recognize accrued leave when paid.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about Fiduciary Net Pension of the Texas County & District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Fair Value

As of December 31, 2016, the District has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2016

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, capital outlay, and principal debt payments exceeded appropriations by \$328,682, \$1,336,353, and \$12,405, respectively during the year. Total actual expenditures did exceed appropriations for the year ending December 31, 2016 by \$1,639,673.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2016

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of December 31, 2016, the District had the following investments:

<u>Investments Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 720,000	0.45
External investment pools	1,518,682	0.12
Total fair value	<u>\$ 2,238,682</u>	
Portfolio weighted average maturity		0.22

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 yearend.

The District invests in TexPool. At year end, the fair value of TexPool investments was \$1,518,682. 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, 2016

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	\$ 2,939,675	\$ 12,781	\$ 2,952,456
Sales taxes	550,095	-	550,095
Other	95,816	-	95,816
Total	<u>\$ 3,585,586</u>	<u>\$ 12,781</u>	<u>\$ 3,598,367</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, 2016 were as follows:

	<u>Due to:</u>
<u>Due from:</u>	<u>General</u>
Debt Service	\$ 3,402,495
Total	<u>\$ 3,402,495</u>

The District receives property tax payments to their debt service cash account, and later distributes the proper portion of the funds to the general fund based on the receipts from each respective tax levy year. This is the reason for the significant due to balance outstanding at yearend. The balance was transferred in full after yearend.

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 \$476,292, of which \$299,121 is restricted for debt service and \$177,171 is restricted for capital projects.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2016

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	1,341,874	2,803,779	(3,086,859)	1,058,794
Total capital assets not being depreciated	<u>2,857,371</u>	<u>2,803,779</u>	<u>(3,086,859)</u>	<u>2,574,291</u>
Capital assets, being depreciated:				
Office equipment	235,031	56,391	-	291,422
Buildings	6,667,008	103,568	3,086,859	9,857,435
Vehicles and equipment	12,649,243	2,384,281	-	15,033,524
Total capital assets being depreciated	<u>19,551,282</u>	<u>2,544,240</u>	<u>3,086,859</u>	<u>25,182,381</u>
Less accumulated depreciation				
Office equipment	(211,300)	(25,382)	-	(236,682)
Buildings	(1,414,014)	(224,604)	-	(1,638,618)
Vehicles and equipment	(7,980,320)	(843,075)	-	(8,823,395)
Total accumulated depreciation	<u>(9,605,634)</u>	<u>(1,093,061)</u>	<u>-</u>	<u>(10,698,695)</u>
Net capital assets being depreciated	<u>9,945,648</u>	<u>1,451,179</u>	<u>-</u>	<u>14,483,686</u>
Total capital assets	<u><u>\$ 12,803,019</u></u>	<u><u>\$ 4,254,958</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,057,977</u></u>

Book value of leased capital assets was \$2,509,583 as of December 31, 2016.

Depreciation expense was \$1,093,061 for the year ended December 31, 2016.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2016

F. Long-Term Obligations

The following is a summary of long-term obligations for the year ended December 31, 2016:

	<u>Balance at 12/31/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 12/31/2016</u>	<u>Due within a year</u>
Governmental Activities:					
Capital leases:					
Three vehicles, due in semi-annual installments through 2020, interest at 4.38%	\$ 832,961	\$ -	\$ (170,979)	\$ 661,982	\$ 178,549
Fire trucks/equipment, due in semi-annual installments through 2022, interest at 2.22%	1,591,328	-	(212,406)	1,378,922	217,147
Notes Payable:					
Station construction, due in annual installments through 2022, interest at 4.89%	2,777,740	-	(342,304)	2,435,436	359,043
* Station construction, due in semi-annual installments through 2025, interest at 2.00%	873,231	2,749,951	(213,759)	3,409,423	417,028
Accrued vacation	-	11,946	-	11,946	11,946
	<u>\$ 6,075,260</u>	<u>\$ 2,761,897</u>	<u>\$ (939,448)</u>	<u>\$ 7,897,709</u>	<u>\$ 1,183,713</u>

Due in more than one year \$ 6,713,996

* 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, 2016 was \$3,623,182. 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, 2016

Future debt service requirements are as follows:

Year ending December 31,	Capital Leases		Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 395,696	\$ 56,376	\$ 776,071	\$ 185,206	\$ 1,171,767	\$ 241,582
2018	408,450	43,622	802,012	159,267	1,210,462	202,889
2019	421,662	30,410	828,978	132,300	1,250,640	162,710
2020	334,282	16,716	857,017	104,261	1,191,299	120,977
2021	237,196	9,340	810,216	75,471	1,047,412	84,811
2022	243,618	4,038	831,475	46,698	1,075,093	50,736
2023	-	-	375,623	16,903	375,623	16,903
2024	-	-	375,623	9,391	375,623	9,391
2025	-	-	187,844	1,878	187,844	1,878
Total	<u>\$ 2,040,904</u>	<u>\$ 160,502</u>	<u>\$ 5,844,859</u>	<u>\$ 731,375</u>	<u>\$ 7,885,763</u>	<u>\$ 891,877</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, 2016

C. Defined Benefit Pension Plan

1. Plan Description

The District provides retirement, disability, and death benefits for all its eligible employees through a nontraditional defined benefit pension plan in the statewide Texas County & District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 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.

2. Benefits Provided

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

Benefit amounts are determined by the sum of the employee's contribution to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

3. Funding Policy

The District has elected the annually determined contribution rate (ACDR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The District contributed using the ADCR of 17.87% for calendar year 2016.

Montgomery County Emergency Services District No. 10

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2016

The District adopted the rate of 7% as the contribution rate payable by the employee members for calendar year 2016. The District may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

4. Contributions

	<u>12/31/2016</u>
Contributions from District	\$ 383,186
Contributions from Participants	\$ 14,562
Total Contributions	<u>\$ 397,748</u>

Employees covered by benefit terms

At the December 31, 2016, the following employees were covered by the benefit terms:

Active employees	3
Total	3

As of December 31, 2016 a valuation has not been performed. The District contributed \$383,186 in order to fund this plan. The contribution has been accounted for as a deferred outflow – contribution at year end.

D. 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, 2016, \$3,623,182 had been funded leaving an unfunded balance of \$332,818. The District anticipates the loan will be fully funded at the conclusion of the construction projects.

E. Subsequent Events

Subsequent to yearend, the District took draws on its construction loan for fire stations #187, 188, and 189 totaling \$261,547. The remaining balance available is being held for coverage of the retainage once station #187 is completed during 2017.

There were no other material subsequent events through June 5, 2017, the date the financial statements were issued.

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, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 5,302,400	\$ 5,302,400	\$ 5,505,490	\$ 203,090
Sales tax	2,500,000	2,500,000	3,250,217	750,217
Other revenues	19,293	19,293	17,344	(1,949)
Investment earnings	5,580	5,580	13,547	7,967
Total Revenues	<u>7,827,273</u>	<u>7,827,273</u>	<u>8,786,598</u>	<u>959,325</u>
Expenditures				
Public safety	5,938,063	5,938,063	6,266,745	(328,682) *
Capital outlay	3,307,209	4,227,209	5,563,562	(1,336,353) *
Debt service:				
Principal	927,043	927,043	939,448	(12,405) *
Interest	284,958	284,958	247,191	37,767
Total Expenditures	<u>10,457,273</u>	<u>11,377,273</u>	<u>13,016,946</u>	<u>(1,639,673)</u>
Other Financing Sources (Uses)				
Sale of property	10,000	10,000	328	(9,672)
Loan proceeds	-	-	2,749,951	2,749,951
Total Financing Sources (Uses)	<u>10,000</u>	<u>10,000</u>	<u>2,750,279</u>	<u>2,740,279</u>
Net Change in Fund Balance	<u>\$ (2,620,000)</u>	<u>\$ (3,540,000)</u>	(1,480,069)	<u>\$ 2,059,931</u>
Beginning Fund Balance			<u>4,694,617</u>	
Ending Fund Balance			<u>\$ 3,214,548</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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Montgomery County
Emergency Services District No. 10
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
For The Years Ended December 31, 2016

	12/31/2016 ¹
Actuarially determined employer contributions	\$ 383,186
Contributions in relation to the actuarially determined contribution	\$ 383,186
Contribution deficiency (excess)	\$ -
Annual covered employee payroll	\$ 208,021
Employer contributions as a percentage of covered employee payroll	184.21%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.