

# **Montgomery County Emergency Services District #4**

Annual Financial Report  
Year Ended September 30, 2016

**Montgomery County Emergency Services District #4**  
Board of Commissioners and Terms

**Brian Arceneaux, President**

January 2015 to December 2017

**Roxann McDaniel, Vice-President**

January 2016 to December 2018

**Raymond Veit, Treasurer**

January 2016 to December 2018

**Mark Abbey, Secretary**

January 2016 to December 2018

**Howard Livesay, Asst. Secretary/Treasurer**

December 2015 to December 2017

**The mailing address for the District  
and Commissioners is:**

9430 State Highway 242 East  
Conroe, Texas 77385

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## Independent Auditor's Report

Board of Commissioners  
Montgomery County Emergency Services District #4  
9430 State Highway 242 East  
Conroe, Texas 77385

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Emergency Services District #4 (District), as of and for the year ended September 30, 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**

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 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.

**Emphasis of Matter**

As discussed in Note 3. G. to the financial statements, the financial statements have restated 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 the 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.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
May 30, 2017

## Management's Discussion and Analysis

As management of the Montgomery County Emergency Services District #4 ("the District"), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2016.

### Financial Highlights

- Governmental activities assets exceeded liabilities and deferred inflows of resources at year-end by \$2,262,631.
- The District's total net position decreased by \$464,365 from current operations, and increased \$167,934 due to a prior period adjustment.
- As of the close of the year, the District's governmental funds had combined ending fund balances of \$962,082, a decrease of \$1,226,760 as compared to the preceding year.
- At the end of the year, unassigned fund balance of the general fund was \$926,082, or 19 percent of the year's total general fund expenditures.
- The District's total debt increased by \$256,559 (8 percent) during the year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information and supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector enterprise.

The *Statement of Net Position* (Exhibit A) presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as an indicator of how the financial position of the District is changing.

The *Statement of Activities* (Exhibit C) presents information showing how the District's net position changed during the year. Changes in net position are reported upon occurrence of the underlying event giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some transactions that will not result in cash flows until future fiscal periods (e.g., uncollected taxes).

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, as do other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District operates only one fund.

**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 cash resources*, as well as on *balances of cash resources* available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.



Because the focus of governmental funds financial statements 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 effect of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements are noted in the table of contents of this report.

The District adopts an annual revenue and appropriations budget for its general fund. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget in the required supplementary information section.

The basic governmental fund financial statements are noted in the table of contents of this report.

**Supplementary information.** In addition to the basic financial statements and accompanying notes, this report presents supplementary information. Supplementary information is noted in the table of contents of this report.

**Government-wide Financial Analysis**

As mentioned earlier, net position may, over time, serve as an indicator of a District's changing financial position. At the close of the District's most recent fiscal year, assets exceeded liabilities and deferred inflows of resources in the amount of \$2,262,631, a decrease of \$296,431 over the preceding year.

**Montgomery County Emergency Services District #4's Net Position**

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 1,190,240	19	\$ 2,113,687	34	\$ (923,447)	(44)
Capital assets, net of depreciation	4,988,288	81	4,049,132	66	939,156	23
Total assets	6,178,528	100	6,162,819	100	15,709	
Total deferred outflows of resources	19,984	100	-	100	19,984	-
Long-term liabilities outstanding	3,655,921	93	3,399,362	95	256,559	8
Other liabilities	279,960	7	183,057	5	96,903	53
Total liabilities	3,935,881	100	3,582,419	100	353,462	
Total deferred inflows of resources	-	100	21,338	100	(21,338)	(100)
Net position:						
Net investment in capital assets	1,567,703	69	1,468,120	57	99,583	7
Unrestricted	694,928	31	1,090,942	43	(396,014)	(36)
Total net position	\$ 2,262,631	100	\$ 2,559,062	100	\$ (296,431)	

The District's net investment in capital assets (e.g., land, construction in progress, buildings and improvements, machinery and equipment, office equipment, and vehicles), less any related debt used to acquire those assets that are still outstanding totaled \$1,567,703. The District uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance, *unrestricted net position* \$694,928, represents resources available to fund the services of the District next year.

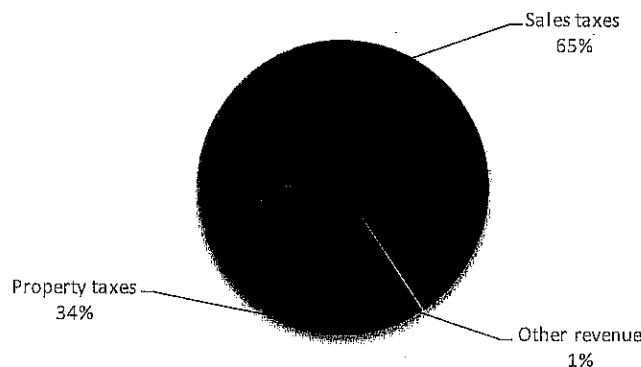
**Governmental activities.** Governmental activities decreased the District's net position by \$296,431. The elements giving rise to this change may be determined from the table below.

**Montgomery County Emergency Services District #4's Changes in Net Position**

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
General revenues:						
Property taxes	\$ 1,024,990	34	\$ 939,066	31	\$ 85,924	9
Sales taxes	1,931,271	65	2,035,411	69	(104,140)	(5)
Investment earnings	5,772	-	14,857	-	(9,085)	(61)
Other revenue	24,164	1	3,922	-	20,242	516
Total revenues	<u>2,986,197</u>	<u>100</u>	<u>2,993,256</u>	<u>100</u>	<u>(7,059)</u>	
Expenses:						
General government	2,996,661	87	2,665,550	86	331,111	12
Interest and fiscal charges	74,711	2	135,574	4	(60,863)	(45)
Depreciation	379,190	11	316,082	10	63,108	20
Total expenses	<u>3,450,562</u>	<u>100</u>	<u>3,117,206</u>	<u>100</u>	<u>333,356</u>	
Change in net position	(464,365)		(123,950)		(340,415)	
Net position - beginning	2,559,062		2,683,012		(123,950)	
Prior period adjustment - sales tax	167,934		-		167,934	
Net position - beginning, restated	<u>2,726,996</u>		<u>2,683,012</u>		<u>43,984</u>	
Net position - ending	<u>\$ 2,262,631</u>		<u>\$ 2,559,062</u>		<u>\$ (296,431)</u>	

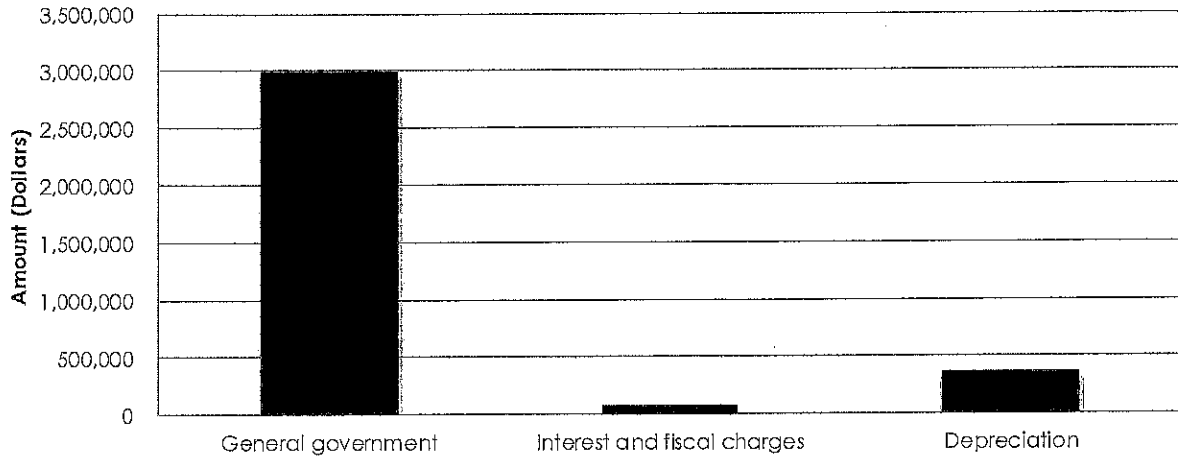
The decrease in governmental activities net position was primarily the result of an increase in depreciation expense and general government, as well as a decline in sales tax collections which resulted from reduced consumer spending.

**Figure A-1  
Revenue by Source - Governmental Activities**



Revenues, aggregating \$2,986,197, were generated primarily from two sources. Property taxes of \$1,024,990 represent 34 percent of total revenues while sales taxes totaling \$1,931,271, represent 65 percent of total revenues.

**Figure A-2  
Expenses - Governmental Activities**



The primary functional expense of the District is General Government \$2,996,661, which represents 87 percent of total expenses. Depreciation expense represents 11 percent of total expenses, while all remaining expense categories are 10 percent or less of total expenses.

**Financial Analysis of the Government's Funds**

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** At the end of the fiscal year, the District's governmental funds had combined ending fund balances of \$926,082, a decrease of \$1,226,760 from the preceding year from current operations.

The general fund is the primary operating fund of the District. At year-end, unassigned fund balance and total fund balance of the general fund was \$926,082. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent 19 percent of total general fund expenditures. The fund balance of the general fund decreased \$1,226,760 during the year from current activities, primarily due to the use of fund balance to finish construction of Station 62.

Governmental funds financial statements may be found by referring to the table of contents.

**General Fund Budgetary Highlights**

There were no differences between the original and final budget of the District's general fund. No budget amendments were presented or approved by the board.

The most significant variations between the final appropriations and actual expenditures were in capital outlay, which was related to construction of Station 62.

## Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets for its governmental activities as of September 30, 2016 was \$4,988,288 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, office equipment, and vehicles.

### Montgomery County Emergency Services District #4's Capital Assets (net of depreciation)

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land	\$ 287,300	6	\$ 287,300	7	\$ -	-
Construction in progress	-	-	159,520	4	(159,520)	(100)
Buildings and improvements	2,334,243	46	950,920	23	1,383,323	145
Machinery and equipment	80,279	2	92,915	2	(12,636)	(14)
Office equipment	-	-	3,931	-	(3,931)	(100)
Vehicles	2,286,466	46	2,554,546	64	(268,080)	(10)
<i>Totals</i>	<u>\$ 4,988,288</u>	<u>100</u>	<u>\$ 4,049,132</u>	<u>100</u>	<u>\$ 939,156</u>	

Additional information on the District's capital assets can be found in the notes to the financial statements per the table of contents.

**Noncurrent liabilities.** At year-end, the District had a liability for notes payable of \$3,655,921.

### Montgomery County Emergency Services District #4's Long-term Liabilities Outstanding

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Notes payable	\$ 3,655,921	100	\$ 3,399,362	100	\$ 256,559	8
<i>Totals</i>	<u>\$ 3,655,921</u>	<u>100</u>	<u>\$ 3,399,362</u>	<u>100</u>	<u>\$ 256,559</u>	

The District's total debt increased by \$256,559. The key factor was the issuance of \$650,000 in notes payable for additional funding related to Station 62.

Additional information on the District's long-term debt can be found as noted in the notes to the financial statements per the table of contents of this report.

The District's budgetary general fund balance is not expected to change appreciably by the close of 2017.

### Requests for Information

This financial report is intended to provide a general overview of the District's finances for those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Montgomery County Emergency Services District #4, 9430 State Highway 242 East, Conroe, Texas 77385.

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# Basic Financial Statements

**Montgomery County Emergency Services District #4**  
 Governmental Fund Balance Sheet/Statement of Net Position  
 September 30, 2016

**Exhibit A**

	<u>General Fund</u>	<u>Adjustments (See Exhibit B)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Cash	\$ 553,740	\$ -	\$ 553,740
Restricted funds - escrow	235,336	-	235,336
Investments	35	-	35
Property taxes receivable, net	44,867	-	44,867
Sales tax receivable	298,157	-	298,157
Other receivables	58,105	-	58,105
Capital assets, not being depreciated:			
Land	-	287,300	287,300
Capital assets, net:			
Buildings and improvements	-	2,334,243	2,334,243
Machinery and equipment	-	80,279	80,279
Vehicles	-	2,286,466	2,286,466
<b>TOTAL ASSETS</b>	<u>\$ 1,190,240</u>	<u>4,988,288</u>	<u>6,178,528</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred outflows of resources - pension	-	19,984	19,984
Total deferred inflows of resources	<u>-</u>	<u>19,984</u>	<u>19,984</u>
<b>LIABILITIES</b>			
Accounts payable	25,043	-	25,043
Accrued liabilities	135,922	-	135,922
Interest payable	-	60,669	60,669
Retainage payable	58,326	-	58,326
Noncurrent liabilities:			
Due within one year	-	443,331	443,331
Due in more than one year	-	3,212,590	3,212,590
Total liabilities	<u>219,291</u>	<u>3,716,590</u>	<u>3,935,881</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue - property taxes	44,867	(44,867)	-
Total deferred inflows of resources	<u>44,867</u>	<u>(44,867)</u>	<u>-</u>
<b>FUND BALANCES/NET POSITION</b>			
Fund balance:			
Unassigned	926,082	(926,082)	-
Total fund balance	<u>926,082</u>	<u>(926,082)</u>	<u>-</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u>\$ 1,190,240</u>		
<b>NET POSITION</b>			
Net investment in capital assets		1,567,703	1,567,703
Unrestricted		694,928	694,928
<b>TOTAL NET POSITION</b>		<u>\$ 2,262,631</u>	<u>\$ 2,262,631</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Montgomery County Emergency Services District #4**  
Reconciliation of the Governmental Fund Balance Sheet  
to the Statement of Net Position  
September 30, 2016

**Exhibit B**

**TOTAL FUND BALANCE - GOVERNMENTAL FUND (EXHIBIT A)** \$ 926,082

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not reported in the funds. 4,988,288

Interest on loans that is not due in the current period is not reported in the funds. (60,669)

Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. 44,867

Portions of loans which are not due in the current period are not reported in the funds. (3,655,921)

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. 19,984

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A)** \$ 2,262,631

The accompanying Notes to the Financial Statements are an integral part of this statement.



**Montgomery County Emergency Services District #4**  
Statement of Fund Revenues, Expenditures, and Changes  
in Governmental Fund Balance/Statement of Activities  
Year Ended September 30, 2016

**Exhibit C**

	<u>General Fund</u>	<u>Adjustments (See Exhibit D)</u>	<u>Statement of Activities</u>
<b>EXPENDITURES/EXPENSES</b>			
Service operations:			
General government	\$ 3,029,796	\$ (33,135)	\$ 2,996,661
Capital outlay	1,305,195	(1,305,195)	-
Principial payments	393,441	(393,441)	-
Interest and fiscal charges	135,197	(60,486)	74,711
Depreciation	-	379,190	379,190
Total expenditures/expenses	<u>4,863,629</u>	<u>(1,413,067)</u>	<u>3,450,562</u>
<b>REVENUES</b>			
General revenues:			
Property taxes	1,025,662	(672)	1,024,990
Sales taxes	1,931,271	-	1,931,271
Investment earnings	5,772	-	5,772
Other revenue	24,164	-	24,164
Total general revenues	<u>2,986,869</u>	<u>(672)</u>	<u>2,986,197</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,876,760)</u>	<u>1,412,395</u>	<u>(464,365)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from notes payable	<u>650,000</u>	<u>(650,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>650,000</u>	<u>(650,000)</u>	<u>-</u>
Change in fund balance	(1,226,760)	1,226,760	-
Change in net position	-	(464,365)	(464,365)
<b>FUND BALANCE/NET POSITION:</b>			
Beginning of the year	1,984,908	574,154	2,559,062
Prior period adjustment - sales tax	167,934	-	167,934
Beginning of the year - restated	<u>2,152,842</u>	<u>574,154</u>	<u>2,726,996</u>
<b>END OF THE YEAR</b>	<u>\$ 926,082</u>	<u>\$ 1,336,549</u>	<u>\$ 2,262,631</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Montgomery County Emergency Services District #4****Exhibit D**

Reconciliation of the Statement of Revenues, Expenditures, and  
 Changes in Governmental Fund Balance to the Statement of Activities  
 Year Ended September 30, 2016

**TOTAL NET CHANGE IN FUND BALANCE GOVERNMENTAL FUND (EXHIBIT C)** \$ (1,226,760)

Amounts reported for governmental activities in the statement of activities  
 ("SOA") are different because:

Capital asset additions are not reported as expenses in the SOA.

General government	\$ 13,151	
Capital outlay	<u>1,305,195</u>	1,318,346

The depreciation of capital assets used in Governmental Activities is not reported  
 in the funds. (379,190)

Certain property tax revenues are deferred in the funds. This is the change in  
 these amounts this year. (672)

Repayment of notes payable is an expenditure in the funds but is not an expense  
 in the SOA. 393,441

Interest on loans that is not due in the current period is not reported in the funds. 39,148

A gain on refinancing is considered an other financing source in the funds, but is  
 a liability in the SOA, and is amortized. 21,338

Acquisition of loans are other financing sources in the funds, but is not recorded  
 as such in the SOA. (650,000)

The net change in deferred outflows is reported in the statement of activities, but  
 does not require the use of current financial resources and, therefore, is not  
 reported as expenditures in the governmental funds. 19,984

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (EXHIBIT C)** \$ (464,365)

The accompanying Notes to the Financial Statements are an integral part of this statement.

# Montgomery County Emergency Services District #4

## Notes to the Financial Statements

### Note 1. Summary of Significant Accounting Policies

#### A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (District). *Governmental activities* normally are supported by taxes, intergovernmental revenues and other nonexchange transactions.

#### B. Reporting Entity

Montgomery County Emergency Services District #4 (the "District") operates under Chapter 775 of V.T.C.A., Health & Safety Code. The District was converted from a Rural Fire Prevention District on January 1, 1996.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District is not included in any other governmental reporting entity. The accompanying financial statements present the District. There are no component units, entities for which the District is considered to be financially accountable, included within the reporting entity.

#### C. Basis of Presentation - Government-wide Statements

Government-wide and governmental funds financial statements are presented in Exhibits A and C. The statement of net position and statement of activities columns incorporate data from governmental funds, on the full accrual basis. The governmental funds are presented under the column General Fund on the modified accrual basis.

An adjustment column is included to present the net difference between the two basis of accounting.

#### D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District.

#### E. 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.

## Montgomery County Emergency Services District #4

### Notes to 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.

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 District 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 required under accrual accounting. However, debt service expenditures 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.

Sales taxes, fees, 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 District.

#### **F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

##### **1. Cash and Investments**

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. Investments for the District, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or net asset value; i.e. fair value.

##### **2. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

##### **3. Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, machinery and equipment, vehicles and office equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year.

As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are reported at their acquisition value at the date of donation.

## Montgomery County Emergency Services District #4

### Notes to the Financial Statements

Land and construction in progress are not depreciated. Buildings and improvements, machinery and equipment, office equipment and vehicles are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Class	Estimated Useful Lives
Buildings and improvements	15 to 30 years
Machinery and equipment	3 to 7 years
Office equipment	3 to 7 years
Vehicles	5 to 15 years

#### 4. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item of this type, which are deferred contributions into the defined benefit pension plan.

In addition to liabilities, the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Accordingly, the District reports *unavailable revenue-property taxes* in the governmental fund balance sheet. Unavailable revenue-property taxes is deferred and recognized as an inflow of resources in the period that the amounts become available.

#### 5. *Pensions*

The District began participation in the Texas County and District Retirement System (TCDRS) effective June 1, 2016.

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of TCERS and additions to/deduction 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.

#### 6. *Net Position Flow Assumption*

Sometimes the District 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 District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## Montgomery County Emergency Services District #4

### Notes to the Financial Statements

#### **7. Fund Balance Flow Assumptions**

Sometimes the District 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 District'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.

#### **8. Fund Balance Policies**

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 District 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 District's highest level of decision-making authority. The board of commissioners (Board) is the highest level of decision-making authority for the District 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 District for specific purposes but do not meet the criteria to be classified as committed. The Board may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### **G. Revenues and Expenditures/Expenses**

#### **1. Property Tax Revenues**

General property taxes are levied on or as soon after September 1 as possible and become payable October 1 or when levied and become delinquent as of February 1. At the time of each tax levy each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property. The tax assessor/collector of Montgomery County, Texas bills and collects the property taxes for the District. The current tax rate to finance maintenance and operations and debt service for the year ended September 30, 2016 was \$0.0390 and \$0.0418 per \$100, respectively.

Approximately 77% of the outstanding balance of property taxes is not anticipated to be collected within the next year.

#### **2. Sales Tax Revenues**

Beginning October 1, 2009, the District began collecting sales taxes. Purchases made by consumers within the District's jurisdiction are subject to a 1.5% sales tax. The payments are received monthly directly from the State Comptroller's office.

#### **3. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management estimates. Accordingly, actual results could differ from those estimates.

## Montgomery County Emergency Services District #4

### Notes to the Financial Statements

#### Note 2. Stewardship, Compliance, and Accountability

##### A. Encumbrances

The District does not use encumbrance accounting.

##### B. Budgetary Information

###### 1. Budgetary Basis of Accounting

The District adopts a non-appropriated budget each fiscal period for the general operating fund. The budget is prepared on a basis consistent with generally accepted accounting principles.

#### Note 3. Detailed Notes on All Funds

##### A. Cash and Investments

At September 30, 2016, the carrying amount of the District's deposits was \$789,076 and the bank balance was \$803,706. At September 30, 2016, all bank balances for public funds were covered by federal deposit insurance, or pledged collateral held by the financial institution in the District's name.

The District invested in the Texas Local Government Investment Pool (Texpool), which had a balance of \$35 as of September 30, 2016. Texpool is duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Investment Counseling. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; no-load money market mutual funds regulated by the Securities and Exchange Commission (SEC) and rated AAAM or equivalent by at least one nationally recognized rating agency (NRSRO); and securities lending programs.

The Texpool investment pool is measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pools transact at a net asset value of \$1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Texpool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

The District is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

## Montgomery County Emergency Services District #4

### Notes to the Financial Statements

The Public Funds Investment Act ("Act") determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District manages interest rate risk by imposing maturity restraints. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the maturity of any individual investment owned by the District to twelve (12) months.

*Credit risk.* For fiscal year 2016, the District is not exposed to credit risk due to all investments are invested in at least one nationally recognized investment firm of not less than AAAM or its equivalent.

*Concentration of credit risk.* The District's investment policy does not limit an investment in any one issuer.

*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. As of September 30, 2016, the District's deposits at the local bank were insured and collateralized with securities held by the District's agent and in the District's name.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the investments, are registered in the District's name or the investments are held by the District or its agent.



**Montgomery County Emergency Services District #4**  
Notes to the Financial Statements

**B. Capital Assets**

Capital asset activity for the period ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Transfers & Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 287,300	\$ -	\$ -	\$ 287,300
Construction in progress	159,520	1,260,351	(1,419,871)	-
Total capital assets, not being depreciated	<u>446,820</u>	<u>1,260,351</u>	<u>(1,419,871)</u>	<u>287,300</u>
Capital assets being depreciated:				
Buildings and improvements	1,347,077	13,150	1,419,871	2,780,098
Machinery and equipment	512,102	12,500	-	524,602
Office equipment	43,768	-	-	43,768
Vehicles	3,788,182	32,345	-	3,820,527
Total capital assets being depreciated	<u>5,691,129</u>	<u>57,995</u>	<u>1,419,871</u>	<u>7,168,995</u>
Less accumulated depreciation for:				
Buildings and improvements	(396,157)	(49,698)	-	(445,855)
Machinery and equipment	(419,187)	(25,136)	-	(444,323)
Office equipment	(39,837)	(3,931)	-	(43,768)
Vehicles	(1,233,636)	(300,425)	-	(1,534,061)
Total accumulated depreciation	<u>(2,088,817)</u>	<u>(379,190)</u>	<u>-</u>	<u>(2,468,007)</u>
Total capital assets being depreciated, net	3,602,312	(321,195)	1,419,871	4,700,988
Governmental activities capital assets, net	<u>\$ 4,049,132</u>	<u>\$ 939,156</u>	<u>\$ -</u>	<u>\$ 4,988,288</u>

Depreciation expense for the period was \$379,190.

**C. Notes Payable**

The District issued notes payable to provide funds for the purchase of land, equipment and the construction of stations. The notes payable are secured by the assets purchased and ad valorem and sales tax. The notes are issued as 10-15 year current interest notes.

## Montgomery County Emergency Services District #4

### Notes to the Financial Statements

The following is a summary of changes in the notes payable of the governmental activities for the fiscal year:

	Interest Rate	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2010 Refinance	4.993%	2020	\$ 606,424	\$ -	\$ (109,763)	\$ 496,661
2010 Constuction	4.976%	2020	200,594	-	(36,320)	164,274
2012 Engine and station	3.396%	2022	229,427	-	(35,118)	194,309
2013 Fire truck	3.261%	2024	551,754	-	(61,476)	490,278
2014 Fire truck	3.439%	2024	891,236	-	(86,178)	805,058
2014 Station 62	3.875%	2028	849,927	-	(51,528)	798,399
2015 Command vehicles	3.483%	2020	70,000	-	(13,058)	56,942
2015 Station 62 - additional	3.894%	2030	-	650,000	-	650,000
<b>Totals</b>			<u>\$ 3,399,362</u>	<u>\$ 650,000</u>	<u>\$ (393,441)</u>	<u>\$ 3,655,921</u>

The District signed a note payable agreement on July 15, 2010, for the purpose of refinancing the capital lease for the fleet that was acquired in 2006 and to purchase a new fire engine. The District also entered into a note payable on July 20, 2010, for the purpose of financing construction on the fire stations. Due to the nature of the refinancing, this resulted in a fiscal gain. In the funds, this is reported as an "other financing source"; in the statement of net position, this is reported as a long-term liability, which is amortized over the remainder of the refinanced loan (6 years). On June 26, 2012, the District entered into a note payable to purchase a new engine, new radios, and to refurbish the fire station. On May 14, 2013, the District entered into a note payable to finance the acquisition of a new fire truck. On July 11, 2014, the District entered into a note payable to finance a new fire truck. On July 11, 2014, the District entered into a note payable to finance Station 62 construction. On January 13, 2015, the District entered into a note payable to finance two new commands vehicles. On December 29, 2015, the District entered into a note payable to acquire additional funding for Station 62 construction.

Long-term obligation activity for the year ended September 30, 2016:

Year Ending September 30	Principal	Interest	Total
2017	\$ 443,331	\$ 141,445	\$ 584,776
2018	459,892	123,610	583,502
2019	478,470	105,031	583,501
2020	497,823	85,678	583,501
2021	316,145	65,517	381,662
2022	284,404	54,349	338,753
2023	294,511	44,242	338,753
2024	225,510	33,774	259,284
2025	116,951	25,523	142,474
2026	121,490	20,984	142,474
2027	126,205	16,269	142,474
2028	131,103	11,372	142,475
2029	51,746	6,283	58,029
2030	53,761	4,268	58,029
2031	54,579	2,176	56,755
<b>Totals</b>	<u>\$ 3,655,921</u>	<u>\$ 740,521</u>	<u>\$ 4,396,442</u>

## Montgomery County Emergency Services District #4

### Notes to the Financial Statements

#### D. Contingent Liabilities

The District is a defendant in various lawsuits arising principally in the normal course of operations. In the opinion of the District's management, the potential losses, after insurance coverage, on all allegations, claims, and lawsuits will not have a material effect of the District's financial position, results of operations or liquidity.

#### E. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the District purchased workers compensation and property and liability insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The District pays an annual premium to TML for its above insurance coverages. The agreement for the formulation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels. However, each category of coverage has its own level of reinsurance. The District continues to carry commercial insurance for other risks of loss. There were no significant reductions in insurance coverages in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

#### F. Pension Plan

##### Plan Description

The District began participation in the Texas County & District Retirement System (TCDRS) as of June 1, 2016, and therefore did not have any participating employees as of the TCERS measurement date, December 31, 2015. A description of the pension plan pursuant to paragraph 40 of GASB Statement No. 68 is as follows:

The District's nontraditional defined benefit pension plan, TCERS, provides pensions for all of its full-time and part-time non-temporary employees. The TCERS Board of Trustees is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 701 nontraditional defined benefit pension plans. TCERS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCERS Board of Trustees at P.O. Box 2034 Austin, TX, 78768 or at [www.tcdrs.org](http://www.tcdrs.org).

##### Benefits Provided

TCERS provides retirement, disability, and death benefits. The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCERS (TCERS Act). Members can retire with ten or more years of service at age 60 and above, 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 ten 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 the District.

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 TCERS 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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCERS Act.

## Montgomery County Emergency Services District #4

### Notes to the Financial Statements

The Plan is open to new entrants.

#### **Contributions**

The District has elected the annually determined contribution rate (Variable Rate) 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 the employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 3.55 percent the total of \$19,984 for the fiscal year ended September 30, 2016.

The deposit rate payable by the employee member for the fiscal year ended September 30, 2016 was 4.0 percent as adopted by the District. The employee deposit rate and the employer contribution rate may be changed by the District within the options available in the TCDRS Act.

#### **Pension Expense and Deferred Outflows of Resources Related to Pensions**

For the fiscal year ended September 30, 2016, the District did not recognize pension expense or deferred inflows of resources in the government-wide financial statements. At September 30, 2016, the District reported deferred outflows of resources of \$19,984 related to pensions from contributions made subsequent to the measurement date of December 31, 2015, which preceded the date that the District began participating in the plan.

#### **G. Prior Period Adjustment**

During the year, the District corrected the sales tax receivable to include the proper twelve month period. As a result, the beginning fund balance and net position were increased by \$167,934. The affect on the prior period change in net position and fund balance was \$167,934.

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## **Required Supplementary Information**

**Montgomery County Emergency Services District #4**  
 Schedule of Revenues, Expenditures, and Changes in Fund  
 Balance – Budget (GAAP Basis) and Actual – General Fund  
 Year Ended September 30, 2016

**Exhibit E**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 1,013,290	\$ 1,013,290	\$ 1,025,662	\$ 12,372
Sales taxes	2,300,000	2,300,000	1,931,271	(368,729)
Investment earnings	-	-	5,772	5,772
Other revenue	129,280	129,280	24,164	(105,116)
Total revenues	<u>3,442,570</u>	<u>3,442,570</u>	<u>2,986,869</u>	<u>(455,701)</u>
<b>EXPENDITURES</b>				
General government	2,916,678	2,916,678	3,029,796	(113,118)
Capital outlay	-	-	1,305,195	(1,305,195)
Principal payments	393,441	393,441	393,441	-
Interest and fiscal charges	132,451	132,451	135,197	(2,746)
Total expenditures	<u>3,442,570</u>	<u>3,442,570</u>	<u>4,863,629</u>	<u>(1,421,059)</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	(1,876,760)	(1,876,760)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from notes payable	-	-	650,000	650,000
Total other financing sources (uses)	-	-	<u>650,000</u>	<u>650,000</u>
Excess (deficiency) of sources over (under) uses	-	-	(1,226,760)	(1,226,760)
Fund balance, beginning of year	1,984,908	1,984,908	1,984,908	-
Prior period adjustment - sales tax	167,934	167,934	167,934	-
Fund balance, beginning of year - restated	<u>2,152,842</u>	<u>2,152,842</u>	<u>2,152,842</u>	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 1,984,908</u>	<u>\$ 1,984,908</u>	<u>\$ 926,082</u>	<u>\$ / (1,058,826)</u>

The accompanying Notes to the Required Supplementary Information are an integral part of this statement.

**Montgomery County Emergency Services District #4**

**Exhibit F**

Schedule of District Contributions to Texas County and District Retirement System (TCDRS)

Year Ended September 30, 2016\*

	<u>2016*</u>
Actuarially determined contribution	\$ 19,984
Contributions in relation to the actuarially determined contributions	<u>(19,984)</u>
<b>CONTRIBUTION DEFICIENCY (EXCESS)</b>	<b><u>\$ -</u></b>
Covered-employee payroll	\$ 564,475
Contributions as a percentage of a covered-employee payroll	3.5%

\*The amounts presented for the fiscal year were determined as the District's fiscal year end September 30. GASB 68 requires 10 fiscal years of data to be provided in this schedule. The District will be required to build this schedule over the next 10-year period.

The accompanying Notes to the Required Supplementary Information are an integral part of this statement.



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## **Montgomery County Emergency Services District #4**

Notes to the Required Supplementary Information

September 30, 2016

### **Note 1. Budgetary Information**

#### **A. Budgetary Basis of Accounting**

The District adopts a non-appropriated budget each fiscal period for the general operating fund. The budget is prepared on a basis consistent with generally accepted accounting principles.

#### **B. Excess of Expenditures Over Appropriations**

For the year ended September 30, 2016, the most significant variance was in capital outlay due to vehicle purchases, building improvements and construction of Station 62.

### **Note 2. Pension**

The District began participation in the Texas County and District Retirement System (TCDRS) as of June 1, 2016, and therefore did not have any participating employees as of the TCERS measurement date, December 31, 2015. Since the District was not a member as of the measurement date, the additional pension schedules are not required.

The District's contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The District contribution rate is based on the TCERS funding policy adopted by the TCERS Board of Trustees and must conform with the TCERS Act. The employee contribution rates are set by the District and are currently 4%. The actuarially determined employer contribution rate for 2016 was 3.55%

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## Supplementary Information

**Montgomery County Emergency Services District #4**  
 Supplementary Information  
 September 30, 2016

**SCHEDULE OF GENERAL GOVERNMENT EXPENDITURES**

Needham Fire Department	\$ 1,999,957
Payroll and related expenditures	775,076
Director fees	4,500
Appraisal funding share	8,448
Insurance	82,003
Professional fees	31,302
Repair and maintenance	13,150
Legal fees	35,253
Auditor	10,400
Dispatch fees	16,397
Montgomery County Hospital District infrastructure fee	18,300
Miscellaneous expense	35,010
	<hr/>
<b>TOTAL</b>	<b>\$ 3,029,796</b>
	<hr/> <hr/>

**SCHEDULE OF PROPERTY TAXES RECEIVABLE**

Property valuations	\$ 1,259,563,119
2015 tax rate	0.0808/100
	<hr/>
<b>2015 TAX LEVY</b>	<b>\$ 1,017,727</b>
	<hr/> <hr/>
Taxes receivable, by tax years:	
2015	\$ 9,915
2014	4,180
2013	3,911
2012	3,765
2011	4,388
2010	3,817
2009	2,471
2008	2,085
2007	3,550
2006 & Prior	6,785
	<hr/>
<b>TOTAL TAXES RECEIVABLE</b>	<b>\$ 44,867</b>
	<hr/> <hr/>

## **Overall Compliance and Internal Control Section**



**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Commissioners  
Montgomery County Emergency Services District #4  
9430 State Highway 242 East  
Conroe, Texas 77385

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Montgomery County Emergency Services District #4 (District) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated May 30, 2017.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses 2016-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies, 2016-002.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
May 30, 2017



**Montgomery County Emergency Services District #4**

Schedule of Findings and Responses

Year Ended September 30, 2016

<b>Section I – Summary Of Auditor's Results</b>	
<b>Financial Statements</b>	
1. Type of auditor's report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	Yes, 2016-001
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	Yes, 2016-002
3. Noncompliance material to the Financial Statements noted?	No
<b>Section II – Financial Statement Findings</b>	
<b>2016-001 Financial Statement Close</b>	
<b>Material Weakness</b>	
<u>Condition:</u> Montgomery County Emergency Services District #4 (District) did not properly close or roll forward previous fiscal periods in the accounting software. The District also did not record closing entries from the previous fiscal periods.	
<u>Criteria:</u> Proper procedures to record closing financial statement journal entries and roll forward fund balance into the next fiscal period.	
<u>Cause:</u> The District does not have procedures in place to perform this function.	
<u>Effect:</u> The activity in these accounts were either understated or overstated, resulting in numerous correcting and/or adjusting entries after fiscal year end, some of which are material to the financial statements. The proper closing of the District's general ledger will assist in presenting correct financial statements to the Board (users) as they make financial decisions for the District.	
<u>Recommendation:</u> We recommend accounting policies be established to ensure that financial statement closing entries are recorded prior to closing the books. We also recommend that the general ledger be reconciled to the trial balance at the end of the fiscal period, and fund balance rolled forward to the next accounting period. A procedure to reconcile fund balance should be implemented to ensure that the process was completed without error.	

## Montgomery County Emergency Services District #4

Schedule of Findings and Responses

Year Ended September 30, 2016

### Section II – Financial Statement Findings - Continued

#### 2016-002 Payroll Expense / Expenditures

##### ***Significant Deficiency in Controls***

###### Condition:

Montgomery County Emergency Services District #4 (District) started reporting employee payroll expenditures effective June 1, 2016; however, payroll expenditures were not recorded or accounted for in the general ledger as of fiscal year end September 30, 2016.

###### Criteria:

The District has not historically recorded payroll expense / expenditures, due to employees were paid through Needham Fire Rescue. Upon participation in the Texas County and District Retirement System, the District is now required to show those individuals as employees of Montgomery County Emergency Services District #4.

###### Cause:

The District has not modified its procedures to reduce budgeted monthly contract fees to Needham Fire Rescue and account for payroll expenditures in the general ledger of District.

###### Effect:

Expenditures may be coded incorrectly with regard to payroll expenses / expenditures. Also, the budget for monthly contract fees to Needham Fire Rescue should be reduced to account for payroll being paid by the District.

###### Recommendation:

We recommend that the District develop procedures to begin recording payroll distributions in the general ledger of Montgomery County Emergency Services District #4. In addition, we recommend that entries should be considered for year-end payroll liabilities and related accruals.

**Montgomery County Emergency Services District #4**

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2016

**Prior Year Findings**

None.

**Montgomery County Emergency Services District #4**

Corrective Action Plan

Year Ended September 30, 2016

**Current Year Findings**

**2016-001 Financial Statement Close**

***Material Weakness***

*Views of Responsible Officials and Planned Corrective Actions:*

The District will begin procedures to record closing entries, reconcile the trial balance to the general ledger and perform a reconciliation of fund balance after financial statement close, which will be implemented immediately.

**2016-002 Payroll Expense / Expenditures**

***Significant Deficiency in Controls***

*Views of Responsible Officials and Planned Corrective Actions:*

The District will begin procedures to record payroll distributions on the books of Montgomery County Emergency Services District #4, which will be implemented immediately.