

**MONTGOMERY COUNTY  
EMERGENCY SERVICES DISTRICT NO. 4**

**MONTGOMERY COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2017**



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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

9600 Great Hills Trail  
Suite 150W  
Austin, Texas 78759  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Montgomery County Emergency  
Services District No. 4  
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Emergency Services District No. 4 (the "District"), as of and for the year ended September 30, 2017, 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. 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 District'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, 2017, 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, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – All Combined Governmental Funds, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of District Contributions 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.

#### *Other 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 required supplementary information and the other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The supplementary 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

June 28, 2018



**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Management's discussion and analysis of Montgomery County Emergency Services District No. 4's (the "District") financial performance provides an overview of the District's financial activities for the year ended September 30, 2017. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The basic financial statements include: (1) fund financial statements and government-wide financial statements and (2) notes to the financial statements. The fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all the District's assets, liabilities, and deferred inflows and outflows of resources with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**FUND FINANCIAL STATEMENTS**

The combined statements also include 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 has two governmental fund types. The General Fund accounts for resources not accounted for in another fund, property tax revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing debt.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**FUND FINANCIAL STATEMENTS (Continued)**

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE FINANCIAL STATEMENTS**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

**OTHER INFORMATION**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI for the General Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by \$2,311,371 as of September 30, 2017.

A portion of the District's net position reflects its net investment in capital assets (capital assets less any debt used to acquire those assets that are still outstanding). The District uses these assets to provide firefighting services. The following is a comparative analysis of government-wide changes in net position:

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2017</u>	<u>2016</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 867,615	\$ 1,190,240	\$ (322,625)
Capital Assets (Net of Accumulated Depreciation)	<u>4,612,903</u>	<u>4,988,288</u>	<u>(375,385)</u>
Total Assets	<u>\$ 5,480,518</u>	<u>\$ 6,178,528</u>	<u>\$ (698,010)</u>
Deferred Outflows of Resources	<u>\$ 135,201</u>	<u>\$ 19,984</u>	<u>\$ 115,217</u>
Long-Term Liabilities	\$ 2,701,117	\$ 3,655,921	\$ 954,804
Other Liabilities	<u>600,650</u>	<u>279,960</u>	<u>(320,690)</u>
Total Liabilities	<u>\$ 3,301,767</u>	<u>\$ 3,935,881</u>	<u>\$ 634,114</u>
Deferred Inflows of Resources	<u>\$ 2,581</u>	<u>\$ -0-</u>	<u>\$ (2,581)</u>
Net Position:			
Net Investment in Capital Assets	\$ 1,450,034	\$ 1,567,703	\$ (117,669)
Restricted	575,985	511,952	64,033
Unrestricted	<u>285,352</u>	<u>182,976</u>	<u>102,376</u>
Total Net Position	<u>\$ 2,311,371</u>	<u>\$ 2,262,631</u>	<u>\$ 48,740</u>

The following table provides a summary of the District's operations for the years ended September 30, 2017 and September 30, 2016.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 1,534,782	\$ 1,024,990	\$ 509,792
Sales Tax Revenues	1,915,041	1,931,271	(16,230)
Interest Earnings	46,957	5,772	41,185
Other Revenues	<u>145,202</u>	<u>24,164</u>	<u>121,038</u>
Total Revenues	<u>\$ 3,641,982</u>	<u>\$ 2,986,197</u>	<u>\$ 655,785</u>
Expenses for Services	<u>(3,593,242)</u>	<u>(3,450,562)</u>	<u>(142,680)</u>
Change in Net Position	\$ 48,740	\$ (464,365)	\$ 513,105
Net Position, Beginning of Year	<u>2,262,631</u>	<u>2,726,996</u>	<u>(464,365)</u>
Net Position, End of Year	<u>\$ 2,311,371</u>	<u>\$ 2,262,631</u>	<u>\$ 48,740</u>

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of September 30, 2017, were \$708,904, a decrease of \$217,178 from the prior year.

The District's General Fund fund balance decreased by \$272,597, primarily due to operating costs exceeding tax revenues.

The District's Debt Service Fund fund balance increased by \$55,419, as a result of tax revenues exceeding current year debt service payments.

**BUDGETARY HIGHLIGHTS**

The Board of Commissioners did not amend the budget during the current fiscal year. Actual revenues were \$97,106 less than budgeted revenues primarily due to lower than expected sales tax revenues. Actual expenditures were \$168,551 more than budgeted expenditures due to higher than expected costs in most categories.

**CAPITAL ASSETS**

Capital assets as of September 30, 2017, total \$4,612,903 (net of accumulated depreciation) and include building and improvements. The current year addition included the purchase of a 2016 Chevrolet maintenance vehicle.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 287,300	\$ 287,300	\$
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	2,236,391	2,334,243	(97,852)
Machinery and Equipment	53,800	80,279	(26,479)
Vehicles	2,035,412	2,286,466	(251,054)
Total Net Capital Assets	\$ 4,612,903	\$ 4,988,288	\$ (375,385)

Additional information on the District's capital assets can be found in Note 5 of this report.

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had debt payable of \$3,162,869. The changes in the debt position of the District during the current year ended September 30, 2017, are summarized as follows:

Long-Term Debt Payable, October 1, 2016	\$ 3,655,921
Less: Note Principal Paid	493,052
Long-Term Debt Payable, September 30, 2017	\$ 3,162,869

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Emergency Services District No. 4, 9430 State Highway 242 East, Conroe, TX 77385.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 304,164	\$
Investments	35	
Receivables:		
Property Taxes	14,546	32,572
Penalty and Interest on Delinquent Taxes		
Sales Tax Revenues	317,721	
Grant Revenues	6,913	
Other	1,796	
Due from Other Funds		591,800
Prepaid Costs	17,901	
Due from Needham Fire Rescue Company	144,986	
Land		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 808,062</b>	<b>\$ 624,372</b>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Pension Plan Charges	\$ - 0 -	\$ - 0 -
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 808,062</b>	<b>\$ 624,372</b>

The accompanying notes to the financial  
statements are an integral part of this report.



<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 304,164	\$	\$ 304,164
35		35
47,118		47,118
	26,981	26,981
317,721		317,721
6,913		6,913
1,796		1,796
591,800	(591,800)	
17,901		17,901
144,986		144,986
	287,300	287,300
	4,325,603	4,325,603
\$ 1,432,434	\$ 4,048,084	\$ 5,480,518
\$ - 0 -	\$ 135,201	\$ 135,201
\$ 1,432,434	\$ 4,183,285	\$ 5,615,719

The accompanying notes to the financial statements are an integral part of this report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 84,612	\$
Accrued Interest Payable		
Due to Other Funds	591,800	
Net Pension Liability		
Long-Term Liabilities:		
Notes Payable, Due Within One Year		
Notes Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	\$ 676,412	\$ -0-
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 14,546	\$ 32,572
Pension Plan Income		
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	\$ 14,546	\$ 32,572
 <b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 17,901	\$
Restricted for Debt Service		591,800
Unassigned	99,203	
<b>TOTAL FUND BALANCES</b>	\$ 117,104	\$ 591,800
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 808,062	\$ 624,372
 <b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

The accompanying notes to the financial  
statements are an integral part of this report.

Total	Adjustments	Statement of Net Position
\$ 84,612	\$	\$ 84,612
	48,387	48,387
591,800	(591,800)	
	5,899	5,899
	461,752	461,752
	2,701,117	2,701,117
<u>\$ 676,412</u>	<u>\$ 2,625,355</u>	<u>\$ 3,301,767</u>
\$ 47,118	\$ (47,118)	\$
	2,581	2,581
<u>\$ 47,118</u>	<u>\$ (44,537)</u>	<u>\$ 2,581</u>
\$ 17,901	\$ (17,901)	\$
591,800	(591,800)	
99,203	(99,203)	
<u>\$ 708,904</u>	<u>\$ (708,904)</u>	<u>\$ - 0 -</u>
<u>\$ 1,432,434</u>		
	\$ 1,450,034	\$ 1,450,034
	575,985	575,985
	285,352	285,352
	<u>\$ 2,311,371</u>	<u>\$ 2,311,371</u>

The accompanying notes to the financial statements are an integral part of this report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2017**

Total Fund Balances - Governmental Funds \$ 708,904

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 4,612,903

Portions of the change in net pension liability that are not immediately recognized as pension expense are recorded as deferred outflows and inflows of resources. 132,620

Deferred inflows of resources related to property tax revenues and uncollected penalty and interest revenues on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District. 74,099

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (48,387)	
Net Pension Liability	(5,899)	
Notes Payable, Due Within One Year	(461,752)	
Notes Payable, Due After One Year	(2,701,117)	
		(3,217,155)

Total Net Position - Governmental Activities \$ 2,311,371

The accompanying notes to the financial statements are an integral part of this report.

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**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 940,233	\$ 592,298
Sales Tax Revenues	1,915,041	
Penalty and Interest	11,532	
Grant Revenues	14,797	
Fire Service Fees	17,130	
Investment Revenues	46,957	
Miscellaneous Revenues	26,283	
<b>TOTAL REVENUES</b>	<b>\$ 2,971,973</b>	<b>\$ 592,298</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
District Services - Needham Fire and Rescue Company	\$ 733,007	\$
Accounting and Auditing	14,931	
Appraisal District Fees	13,464	
Commissioner Fees	4,000	
Communications Fees	23,812	
Depreciation		
Insurance	94,879	
Legal Fees - General	33,553	
Legal Fees - Delinquent Tax Collections	2,863	
Salaries and Benefits	2,150,103	
Sales Tax Consultant	22,499	
Maintenance and Repairs	31,324	
Montgomery County Hospital District Infrastructure Fee	18,300	
Tax Assessor Collector Fees	1,722	
Other	8,130	
Capital Outlay	45,497	
Debt Service:		
Principal	77,006	416,046
Interest	17,959	120,833
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 3,293,049</b>	<b>\$ 536,879</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<b>\$ (321,076)</b>	<b>\$ 55,419</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Contribution from City of Shenandoah, Texas	\$ 48,479	\$ -0-
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (272,597)</b>	<b>\$ 55,419</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - OCTOBER 1, 2016, AS ADJUSTED</b>	<b>389,701</b>	<b>536,381</b>
<b>FUND BALANCES/NET POSITION - SEPTEMBER 30, 2017</b>	<b>\$ 117,104</b>	<b>\$ 591,800</b>

The accompanying notes to the financial  
statements are an integral part of this report.

Total	Adjustments	Statement of Activities
\$ 1,532,531	\$ 2,251	\$ 1,534,782
1,915,041		1,915,041
11,532	26,981	38,513
14,797		14,797
17,130		17,130
46,957		46,957
26,283	48,479	74,762
<u>\$ 3,564,271</u>	<u>\$ 77,711</u>	<u>\$ 3,641,982</u>
\$ 733,007	\$	\$ 733,007
14,931		14,931
13,464		13,464
4,000		4,000
23,812		23,812
	420,882	420,882
94,879		94,879
33,553		33,553
2,863		2,863
2,150,103	(106,737)	2,043,366
22,499		22,499
31,324		31,324
18,300		18,300
1,722		1,722
8,130		8,130
45,497	(45,497)	
493,052	(493,052)	
138,792	(12,282)	126,510
<u>\$ 3,829,928</u>	<u>\$ (236,686)</u>	<u>\$ 3,593,242</u>
<u>\$ (265,657)</u>	<u>\$ 314,397</u>	<u>\$ 48,740</u>
<u>\$ 48,479</u>	<u>\$ (48,479)</u>	<u>\$ -0-</u>
<u>\$ (217,178)</u>	<u>\$ 217,178</u>	<u>\$</u>
	48,740	48,740
<u>926,082</u>	<u>1,336,549</u>	<u>2,262,631</u>
<u>\$ 708,904</u>	<u>\$ 1,602,467</u>	<u>\$ 2,311,371</u>

The accompanying notes to the financial statements are an integral part of this report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Net Change in Fund Balances - Governmental Funds \$ (217,178)

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. 2,251

Governmental funds report delinquent tax penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when the penalty and interest are assessed. 26,981

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. (420,882)

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. 45,497

The changes in the net pension liability as well as deferred inflows and outflows of resources are recorded in the government-wide financial statements. 106,737

Governmental funds report principal payments on long-term liabilities as expenditures in the year paid. However, in the government-wide financial statements, liabilities are reduced when principal payments are made and the Statement of Activities is not affected. 493,052

Governmental funds report interest payments on long-term liabilities as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on long-term liabilities through the fiscal year-end. 12,282

Change in Net Position - Governmental Activities \$ 48,740

The accompanying notes to the financial statements are an integral part of this report.



**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 1. CREATION OF DISTRICT**

Montgomery County Emergency Services District No. 4 operates under Chapter 775 of the Health and Safety Code. The District was converted from a Rural Fire Prevention District on January 1, 1996. The District provides operating funds for the contracting of fire prevention and rescue services within the boundaries of the District.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The District is a political subdivision of the State of Texas governed by an appointed board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately appointed governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification").

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense in the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and a Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Funds

The District has two major governmental funds.

General Fund - To account for resources not required to be accounted for in another fund, property tax revenues, costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing debt.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of September 30, 2017, the General Fund owed the Debt Service Fund \$591,800 for tax collections net of debt payments.

Capital Assets

Capital assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset after completion. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings and Improvements	20-40
Firefighting Equipment	4-15
Vehicles	5-15

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Budgeting

In compliance with governmental accounting principles, the Board of Commissioners annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

The District has 39 full-time employees. Payments are made into the Social Security System for their benefit, into an individual retirement account (see Note 10) and pension plan (see Note 11). The Internal Revenue Service determined that fees of office received by Commissioners are wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

*Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted*: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

*Committed*: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

*Assigned*: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

*Unassigned:* all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount 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 expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3. TAX LEVY**

During the year ended September 30, 2017, the District levied an ad valorem maintenance tax rate of \$0.0618 per \$100 of assessed valuation for the 2016 tax year. This resulted in a tax levy of \$945,959 on the adjusted taxable valuation of \$1,535,056,574 for the 2016 tax year.

During the year ended September 30, 2017, the District levied an ad valorem debt service tax rate of \$0.0382 per \$100 of assessed valuation, which resulted in a tax levy of \$584,719 on the adjusted taxable valuation of \$1,535,056,574 for the 2016 tax year.

The District's tax calendar is as follows:

- |                 |   |
|-----------------|---|
| Levy Date       | - Before the later of September 30 <sup>th</sup> or the 60 <sup>th</sup> day after the receipt of the certified tax roll. |
| Lien Date       | - January 1.  |
| Due Date        | - Not later than January 31.  |
| Delinquent Date | - February 1, at which time the taxpayer is liable for penalty and interest.  |

**NOTE 4. DEPOSITS AND INVESTMENTS**

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$304,164 and the bank balance was \$304,364. Of the bank balance, \$250,000 was covered by federal depository insurance and the balance was covered by a pledge of securities held in safekeeping by a third-party institution in the District's name.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2017, as listed below:

	<u>Cash</u>
TOTAL DEPOSITS	<u>\$ 304,164</u>

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Commissioners.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

As of September 30, 2017, the District had the following investment and maturity:

Fund and Investment Type	Fair Value	Maturity of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ <u>35</u>	\$ <u>35</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2017, the District's investment in TexPool was rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 5. CAPITAL ASSETS**

	October 1, 2016	Increases	Decreases	September 30, 2017
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 287,300	\$	\$	\$ 287,300
Construction in Progress		45,497	45,497	
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 287,300</u>	<u>\$ 45,497</u>	<u>\$ 45,497</u>	<u>\$ 287,300</u>
<b>Capital Assets Subject to Depreciation</b>				
Buildings and Improvements	\$ 2,780,098	\$	\$	\$ 2,780,098
Machinery and Equipment	524,602			524,602
Office Equipment	43,768			43,768
Vehicles	3,820,527	45,497		3,866,024
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 7,168,995</u>	<u>\$ 45,497</u>	<u>\$ - 0 -</u>	<u>\$ 7,214,492</u>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	\$ 445,855	\$ 97,852	\$	\$ 543,707
Machinery and Equipment	444,323	26,479		470,802
Office Equipment	43,768			43,768
Vehicles	1,534,061	296,551		1,830,612
<b>Total Accumulated Depreciation</b>	<u>\$ 2,468,007</u>	<u>\$ 420,882</u>	<u>\$ - 0 -</u>	<u>\$ 2,888,889</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 4,700,988</u>	<u>\$ (375,385)</u>	<u>\$ - 0 -</u>	<u>\$ 4,325,603</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 4,988,288</u>	<u>\$ (329,888)</u>	<u>\$ 45,497</u>	<u>\$ 4,612,903</u>

**NOTE 6. CONTRACT FOR FIRE PROTECTION AND RESCUE SERVICES**

The District executed a contract, effective October 1, 2016 for personnel for the provision of emergency services, within areas specified by the District with Needham Fire Rescue Department (the "Department"). This contract was amended September 12, 2017. The term of the contract is for two years through September 30, 2019 and is renewable for successive one-year periods by action of the District and Department. Under the terms of the contract, the Department agrees to provide personnel for providing firefighting protection and suppression; fire prevention education; identification and control of hazardous materials; and emergency medical first responder service. The District provides and maintains suitable firefighting and related apparatus; vehicles; equipment and supplies for the Departments performance of these services.

The District agreed to provide periodic payments to the Department. Payments are determined during the annual budget meetings.

For the year ended September 30, 2017, the District paid the Department \$733,007 for operations and maintenance.



**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 7. 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. The District carries commercial insurance for its fidelity bonds and participates in the Volunteer Firefighter & EMS Insurance Services (VFIS) to provide property, portable equipment, general liability, management liabilities, errors and omissions, public employee dishonesty, automobile, and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by VFIS's management. As claims arise they are submitted and paid by VFIS. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 8. NOTES PAYABLE**

On July 15, 2010, the District entered into a \$1,540,000 promissory note with Government Capital Corporation to refinance a lease purchase agreement with Capital One Bank relating to the purchase of two 2006 Sterling Acterra Tanker trucks, one 2006 Sterling Acterra Rescue truck, two 2005 Ferrara Igniter Pumper trucks and a 2005 Ferrara Igniter Ladder truck and related equipment. This promissory note is secured by ad valorem tax funds. Annual installments of \$140,041.48 are due each May 1, beginning May 1, 2013, and ending May 1, 2020. The interest rate is 4.993%. During the current year, a principal only payment of \$7,830 was made with funds provided by the City of Shenandoah, Texas ("City").

On July 20, 2010, the District entered into a \$509,000 promissory note with Government Capital Corporation to fund the renovation of a fire station and new water and sewer lines, secured by ad valorem tax revenues. On March 20, 2013, the note was refinanced. Annual installments of \$46,301.35 are due each May 1, beginning May 1, 2013, and ending May 1, 2020. The interest rate is 4.976%. During the current year, a principal only payment of \$2,590 was made with funds provided by the City.

On June 26, 2012, the District entered into a \$475,000 promissory note with Government Capital Corporation to fund new radios and Watchdog system; refurbish fire trucks and a fire station. This note is secured by ad valorem tax funds. The initial installment is due December 20, 2012 with annual installments of \$42,909.36 due each May 1, beginning May 1, 2013, and ending May 1, 2021. The interest rate is 3.396%. During the current year, a principal only payment of \$3,064 was made with funds provided by the City.

On May 14, 2013, the District entered into a \$670,000 promissory note with Government Capital Corporation to finance the acquisition of a new fire truck. This note is secured by sales and use tax funds. Annual installments of \$79,468.53 are due each May 1, beginning May 1, 2014, and ending May 1, 2023. The interest rate is 3.261%.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 8. NOTES PAYABLE (Continued)**

On July 11, 2014, the District entered into a \$975,000 promissory note with Government Capital Corporation to finance the acquisition of a new fire truck. This note is secured by sales and use tax funds. Annual installments of \$116,733.93 are due each July 1, beginning July 1, 2015, and ending July 1, 2024. The interest rate is 3.439%. During the current year, a principal only payment of \$12,684 was made with funds provided by the City.

On July 11, 2014, the District entered into a \$900,000 promissory note with Government Capital Corporation to finance the construction of a fire station. This note is secured by ad valorem tax funds. Annual installments of \$84,384.25 are due each July 1, beginning July 1, 2015, and ending July 1, 2028. The interest rate is 3.873%. During the current year, a principal only payment of \$12,579 was made with funds provided by the City.

On January 13, 2015, the District entered into a \$70,000 promissory note with Government Capital Corporation to finance the acquisition of two command vehicles. This note is secured by sales and use tax funds. Annual installments of \$15,496.23 are due each January 26, beginning January 26, 2016, and ending January 26, 2020. The interest rate is 3.483%.

On December 29, 2015, the District entered into a \$650,000 promissory note with Government Capital Corporation to finance the construction of a fire station. This note is secured by ad valorem tax funds. Annual installments of \$58,029.23 are due each January 1, beginning January 1, 2017, and ending July 1, 2031. The interest rate is 3.894%. During the current year, a principal only payment of \$9,732 was made with funds provided by the City.

Total additional principal payments provided by the City totaled \$48,479, see Note 14.

The following is a summary of transactions regarding notes payable for the year ended September 30, 2017:

	October 1, 2016	Additions	Retirements	September 30, 2017
Notes Payable	<u>\$ 3,655,921</u>	<u>\$ - 0 -</u>	<u>\$ 493,052</u>	<u>\$ 3,162,869</u>
			Amount Due Within One Year	\$ 461,752
			Amount Due After One Year	2,701,117
			Notes Payable	<u>\$ 3,162,869</u>

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 8. NOTES PAYABLE (Continued)**

As of September 30, 2017, the debt service requirements on the notes payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 461,752	\$ 121,613	\$ 583,365
2019	480,408	102,959	583,367
2020	487,184	83,520	570,704
2021	314,001	63,903	377,904
2022	285,815	52,801	338,616
2023-2027	874,533	133,934	1,008,467
2028-2031	259,176	21,008	280,184
	<u>\$ 3,162,869</u>	<u>\$ 579,738</u>	<u>\$ 3,742,607</u>

The assets acquired with these notes, are operated and maintained by the Department, and insured by the District.

**NOTE 9. CAPITAL LEASE**

Subsequent to year-end, on January 5, 2018, the District entered into an equipment lease-purchase agreement to finance renovation to Fire Station No. 61 using the 2015 Ferrara Fire Truck as collateral. The District's borrowing rate is 3.274%. Payments of \$88,848.59 are due each January 9 beginning January 9, 2019 with the last payment due January 9, 2021.

**NOTE 10. DEFERRED COMPENSATION PLANS**

The District offers its employees two deferred compensation plans, a Section 457 plan and a Section 401(a) plan, both created in accordance with the Internal Revenue Service Codes, Section 457 and Section 414(d), respectively. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until retirement, termination, death, or unforeseeable emergencies. Federal law requires all assets and income of both plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries. The District's deferred compensation plans are administered by a private corporation under contract with the District.

**NOTE 11. PENSION PLAN**

Plan Description

The District provides retirement for all of its full and part-time non-temporary employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 11. PENSION PLAN (Continued)**

Plan Description (Continued)

administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 760 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available on the TCDRS website ([www.tcdrs.org](http://www.tcdrs.org)).

Benefits Provided

The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing the TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 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 deposits in the plan to receive any employer-financed benefit. A member who is vested and who is totally and permanently disabled is eligible for a disability retirement benefit. A member who is not vested is eligible for disability benefits if the total and permanent disability was a result of an on-the-job injury. Members who withdraw their personal deposits 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 deposits to the plan, with interest, and employer-financed monetary credit. The level of these monetary credits is adopted by the governing body of 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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. There are no automatic cost-of-living adjustments. Each year the District may elect an ad hoc cost-of-living adjustment for its retirees (if any).

At September 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-0-
Inactive employees entitled but not yet receiving benefits	3
Active employees	38

Contributions

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 employer contributed using the actuarially determined rate of 3.55% for the months of the 2016 and 2017 accounting years. The deposit rate payable by the employee members for calendar years 2016 and 2017 is 4.00% as adopted by the governing body of the District. The employee deposit rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 11. PENSION PLAN (Continued)**

Contributions (Continued)

For the District's accounting year ended September 30, 2017, the annual pension cost for the TCDRS plan for its employees was \$65,849; the actual contributions were \$65,849. The required contribution was determined as part of the December 31, 2016, actuarial valuation using the entry age actuarial cost method.

Actuarial Assumptions

	Actuarial Valuation Information
Actuarial valuation date	12/31/16
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Amortization period	20.0
Asset Valuation Method:	
Subdivision Accumulation Fund	5-year smoothed value
Employees Saving Fund	Fund value
Actuarial Assumptions:	
Investment return <sup>1</sup>	8.0%
Projected salary increases <sup>1</sup>	4.9%
Inflation	3.0%
Cost-of-living adjustments	0.0%

<sup>1</sup>Includes inflation at the stated rate

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different.

Mortality rates were based on the following:

Depositing members – The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate Scale after that.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 11. PENSION PLAN (Continued)**

Actuarial Assumptions (Continued)

Service retirees, beneficiaries and non-depositing members – The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate Scale after that, with a one-year set-forward for males and no age adjustment for females.

Disabled retirees – RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate Scale after that, with no age adjustment for males and a two-year set-forward for females.

Discount Rate

The total pension liability was determined by an actuarial valuation as of the measurement date, calculated based on the discount rate and actuarial assumptions below. The discount rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses. The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members.

To determine the discount rate to be used, the actuary used an alternative method to determine the sufficiency of the fiduciary net position in all future years. This alternative method reflects the funding requirements under the funding policy and the legal requirements under the TCDRS Act:

- 1) TCDRS has a funding policy where the Unfunded Actuarial Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
- 2) Under the TCDRS Act, the District is legally required to make the contributions specified in the funding policy.
- 3) The District's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the District is still required to contribute at least the normal cost.
- 4) Any increased cost due to the adoption of a cost-of-living adjustment is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculation the total pension

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 11. PENSION PLAN (Continued)**

Discount Rate (Continued)

liability and net position liability of the District is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2017 information for a 7 to 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2013 for the period January 1, 2009 – December 31, 2012. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation are summarized below:

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	13.50 %	4.70 %
Private Equity	16.00	7.70
Global Equities	1.50	5.00
International Equities-Developed Markets	10.00	4.70
International Equities-Emerging Markets	7.00	5.70
Investment-Grade Bonds	3.00	0.60
High-Yield Bonds	3.00	3.70
Opportunistic Credit	2.00	3.83
Direct Lending	10.00	8.15
Distressed Debt	3.00	6.70
REIT Equities	2.00	3.85
Master Limited Partnerships (MLPs)	3.00	5.60
Private Real Estate Partnerships	6.00	7.20
Hedge Funds	20.00	3.85
	100.00 %	

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 11. PENSION PLAN (Continued)**

Net Pension liability

Changes in Net Pension Liability/(Asset) for the measurement year ended December 31, 2016 are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances of December 31, 2015	\$ -0-	\$ -0-	\$ -0-
Changes for the year:			
Service Costs	81,800		81,800
Interest on total pension liability	3,248		3,248
Effect of economic/demographic gains or losses	70		70
Member contributions		41,336	(41,336)
Employer contributions		36,702	(36,702)
Other	1	1,182	(1,181)
Balances of December 31, 2016	<u>\$ 85,119</u>	<u>\$ 79,220</u>	<u>\$ 5,899</u>

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

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
	Total Pension Liability	\$ 102,066	\$ 85,119
Fiduciary Net Position	<u>79,220</u>	<u>79,220</u>	<u>79,220</u>
Net Pension Liability/(asset)	<u>\$ 22,846</u>	<u>\$ 5,899</u>	<u>\$ (7,778)</u>

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 64
Net differences between projected and actual earnings		2,517
Contributions subsequent to the measurement date	<u>135,201</u>	
Total	<u>\$ 135,201</u>	<u>\$ 2,581</u>



**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 11. PENSION PLAN (Continued)**

The \$135,200 reported as deferred outflows of resources are plan contributions paid subsequent to the measurement date and prior to the District's year-end, and will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 134,566
2018	(635)
2019	(635)
2020	(636)
2021	(6)
Thereafter	(34)

**NOTE 12. GRANT REVENUE**

On December 21, 2016, the District was awarded a Public Assistance Grant from the Texas Department of Public Safety, in the amount of \$7,883.56. This grant is to reimburse the District for 75% of costs incurred responding to the April 15, 2016 area wide flooding.

On February 17, 2017, the District was awarded a Public Assistance Grant from the Texas Department of Public Safety, in the amount of \$6,912.66. This grant is to reimburse the District for 75% of costs incurred responding to the area wide flooding May 26 to May 28, 2016.

**NOTE 13. SALES AND USE TAX**

In accordance with Chapter 775 of the Health and Safety Code, the District is authorized to adopt and impose a sales and use tax if authorized by a majority of the qualified voters of the District. The election to adopt a sales and use tax is governed by the provision of Subchapter E, Chapter 323 of the Tax Code.

On May 9, 2009, the voters of the District approved the establishment and adoption of a sales and use tax up to a maximum of one percent. On October 1, 2009, the Board set a local sales and use tax of one percent on all applicable sales and uses within the boundaries of the District, except in those areas that already have a two percent tax. During the current year, the District recorded \$1,915,041 in sales tax receipts, of which \$317,721 was due from the State Comptroller at December 31, 2017.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 14. DE-ANNEXATION – CITY OF SHENANDOAH, TEXAS**

During the current year, the District received \$48,479 related to the de-annexation of parcels annexed by the City of Shenandoah, Texas from the District's boundaries. As part of the de-annexation, the City paid the District for its share of debt secured by ad valorem taxes, which had previously been incurred to provide service to such parcels.

**NOTE 15. PRIOR PERIOD ADJUSTMENT**

In a prior year, the District began collecting debt service ad valorem taxes. These collections are required to be segregated to pay liabilities secured by ad valorem tax collections. The effect of this correction in the District's funds are as follows:

General Fund-Fund Balance - October 1, 2016	\$ 926,082
Effect of Adjustment	<u>(536,381)</u>
General Fund-Fund Balance - October 1, 2016, As Adjusted	<u>\$ 389,701</u>
Debt Service Fund-Fund Balance - October 1, 2016	\$
Effect of Adjustment	<u>536,381</u>
Debt Service Fund-Fund Balance - October 1, 2016, As Adjusted	<u>\$ 536,381</u>

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2017**



**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -**  
**ALL COMBINED GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 1,526,764	\$ 1,532,531	\$ 5,767
Sales Tax Revenues	2,134,613	1,915,041	(219,572)
Penalty and Interest		11,532	11,532
Grant Revenues		14,797	14,797
Fire Service Fees		17,130	17,130
Investment Revenues		46,957	46,957
Miscellaneous Revenues		26,283	26,283
<b>TOTAL REVENUES</b>	<u>\$ 3,661,377</u>	<u>\$ 3,564,271</u>	<u>\$ (97,106)</u>
<b>EXPENDITURES</b>			
Service Operations:			
Firefighting Personnel and Operations	\$ 2,891,700	\$ 2,883,110	\$ 8,590
Accounting and Auditing	10,400	14,931	(4,531)
Appraisal District Fees	7,810	13,464	(5,654)
Commissioner Fees	4,000	4,000	
Communications Fees	20,360	23,812	(3,452)
Insurance	71,250	94,879	(23,629)
Legal Fees - General	25,000	36,416	(11,416)
Sales Tax Consultant	18,100	22,499	(4,399)
Maintenance and Repairs	500	31,324	(30,824)
Montgomery County Hospital District			
Infrastructure Fee	18,300	18,300	
Other	10,593	9,852	741
Capital Outlay		45,497	(45,497)
Debt Service:			
Principal	409,241	493,052	(83,811)
Interest	174,123	138,792	35,331
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,661,377</u>	<u>\$ 3,829,928</u>	<u>\$ (168,551)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER OVER EXPENDITURES</b>	<u>\$ -0-</u>	<u>\$ (265,657)</u>	<u>\$ (265,657)</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Contribution from City of Shenandoah, Texas	\$ -0-	\$ 48,479	\$ 48,479
<b>NET CHANGE IN FUND BALANCE</b>	\$ -0-	\$ (217,178)	\$ (217,178)
<b>FUND BALANCE - OCTOBER 1, 2016</b>	926,082	926,082	
<b>FUND BALANCE - SEPTEMBER 30, 2017</b>	<u>\$ 926,082</u>	<u>\$ 708,904</u>	<u>\$ (217,178)</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
SEPTEMBER 30, 2017**

	Year Ended December 31,	
	2015	2016
<b>Total Pension Liability</b>		
Service Cost	N/A	\$ 81,800
Interest on total pension liability	N/A	3,248
Effect of economic/demographic (gains) or losses	N/A	70
Other	N/A	1
Net change in total pension liability	N/A	\$ 85,119
Total pension liability, beginning	N/A	-0-
Total pension liability, ending (a)	N/A	\$ 85,119
<b>Fiduciary Net Position</b>		
Employer contributions	N/A	\$ 36,702
Member contributions	N/A	41,336
Other	N/A	1,182
Net change in fiduciary net position	N/A	\$ 79,220
Fiduciary net position, beginning	N/A	-0-
Fiduciary net position, ending (b)	N/A	\$ 79,220
Net pension liability/(asset), ending = (a) - (b)	N/A	\$ 5,899
Fiduciary net position as a percentage of total pension liability	N/A	93.07%
Pensionable covered payroll	N/A	\$ 1,033,398
Net pension liability as a percentage of covered payroll	N/A	0.57%

See accompanying independent auditor's report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**SEPTEMBER 30, 2017**

Year Ending December 31	Actuarially Determined Contribution <sup>(1)</sup>	Actual Employer Contribution <sup>(1)</sup>	Contribution Deficiency (Excess)	Pensionable Covered Payroll <sup>(2)</sup>	Actual Contribution as a Percentage of Covered Payroll
2016	\$ 36,686	\$ 36,702	\$ (16)	\$ 1,033,398	3.6%

<sup>(1)</sup> TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

<sup>(2)</sup> Payroll is calculated based on contributions as reported to TCDRS.

All actuarial methods and assumptions used for this analysis were the same as those used in the December 31, 2016, funding valuation. Following are the key assumptions and methods used in this analysis.

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	20.0 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Same as funding valuation
Mortality	Same as funding valuation, See Note 11
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions. 2016: No changes in plan provisions.

See accompanying independent auditor's report.

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**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**

**OTHER SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2017**



**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - OCTOBER 1, 2016	\$ 8,626		\$ 36,241	
Adjustments to Beginning Balance	<u>194</u>	\$ 8,820	<u>3,910</u>	\$ 40,151
Original 2016 Tax Levy	\$ 948,665		\$ 586,392	
Adjustment to 2016 Tax Levy	<u>(2,706)</u>	<u>945,959</u>	<u>(1,673)</u>	<u>584,719</u>
TOTAL TO BE ACCOUNTED FOR		\$ 954,779		\$ 624,870
TAX COLLECTIONS:				
Prior Years	\$ 3,533		\$ 13,302	
Current Year	<u>936,700</u>	<u>940,233</u>	<u>578,996</u>	<u>592,298</u>
TAXES RECEIVABLE - SEPTEMBER 30, 2017		<u>\$ 14,546</u>		<u>\$ 32,572</u>
TAXES RECEIVABLE BY YEAR:				
2016		\$ 9,259		\$ 5,723
2015		2,414		2,587
2014		1,384		1,682
2013				2,843
2012				2,910
2011				3,399
2010				2,815
2009		222		1,931
2008		176		1,594
2007		261		2,574
2006		76		646
2005		75		634
2004		63		576
2003		59		460
2002		69		345
2001		68		366
2000		64		383
1999		69		413
1998		58		349
1997		125		286
1996		77		47
1995		<u>27</u>		<u>9</u>
TOTAL		<u>\$ 14,546</u>		<u>\$ 32,572</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>2016</u>	<u>2015</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 1,535,056,574</u>	<u>\$ 1,259,563,119</u>
TAX RATES PER \$100 VALUATION:		
Operating	\$ 0.0618	\$ 0.0390
Debt Service	<u>0.0382</u>	<u>0.0418</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.1000</u>	<u>\$ 0.0808</u>
ADJUSTED TAX LEVY*	<u>\$ 1,530,678</u>	<u>\$ 1,017,727</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.02 %</u>	<u>99.51 %</u>

\* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 4**  
**BOARD OF COMMISSIONERS**  
**SEPTEMBER 30, 2017**

District Mailing Address - Montgomery County Emergency Services District No. 4  
9430 State Highway 242 East  
Conroe, TX 77385

District Telephone Number - (936) 321-0999

<u>Commissioners</u>	<u>Term of Office Appointed Expires</u>	<u>Fees of Office for the year ended September 30, 2017</u>	<u>Expense Reimbursements for the year ended September 30, 2017</u>	<u>Title</u>
Brian Arceneaux	01/01/15 12/31/17	\$ 800	\$ -0-	President
Roxann McDaniel-Doise	01/01/16 12/31/18	\$ 800	\$ -0-	Vice President
Raymond Veit	01/01/16 12/31/18	\$ 800	\$ -0-	Treasurer
Mark Abbey	01/01/16 12/31/18	\$ 800	\$ -0-	Secretary
Howard Livesay	01/01/15 12/31/17	\$ 800	\$ -0-	Assistant Treasurer/Secretary

The limit on fees of office that a Commissioner may receive during a year was \$3,000 as set by the Health and Safety Code-Chapter 775. Effective September 1, 2017, a Commissioner is entitled to receive compensation in the same manner and amount as are provided by Section 49.060 of the Texas Water Code, currently \$7,200 per fiscal year. The above fees of office and expense reimbursements are the amounts paid to a Commissioner during the District's current fiscal year.

See accompanying independent auditor's report.

