MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 7

2025 ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2025

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ANNUAL FINANCIAL REPORT

of the

Montgomery County Emergency Services District No. 7

For the Year Ended
September 30, 2025

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Montgomery County Emergency Services District No. 7

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BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Montgomery County Emergency Services District No. 7:

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the general fund of Montgomery County ESD No. 7 (the "District") as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Montgomery County ESD No. 7, as of September 30, 2025, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Montgomery County ESD No. 7 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BrooksWatson & Co.

BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
July 30, 2026

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the Montgomery County Emergency Services District No. 7 (the "District") for the year ended September 30, 2025. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the District as a whole. These statements include transactions and balances relating to all assets, including capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors, such as the District's operating performance need to be considered to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities present the District using one class of activity:

1. Governmental Activities – The District's emergency service operations are reported here.

The government-wide financial statements can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the District. They are usually segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The District's operations are reported using governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains one governmental fund. 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 a major fund.

The general fund is used to report the District's activities. The District adopts an annual unappropriated budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found after the financial statements within this report.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information ("RSI"). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund. The RSI can be found after the notes to the financial statements within this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the District, assets and deferred outflows exceeded liabilities and deferred inflows by $10,029,804 as of yearend. Unrestricted net position, $4,875,329, may be used to meet the District's ongoing emergency service operations.

Montgomery County Emergency Services District No. 7

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2025

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities 9/30/2025	Governmental Activities 9/30/2024
Current and other assets	$ 6,663,316	$ 6,934,527
Capital assets, net	7,860,417	6,602,107
Total Assets	14,523,733	13,536,634
Deferred Outflows of Resources	1,050,579	606,803
Current liabilities	655,678	487,142
Long-term liabilities	4,888,830	5,402,788
Total Liabilities	5,544,508	5,889,930
Net position:		
Net investment in capital assets	4,550,852	2,603,541
Restricted	603,623	724,347
Unrestricted	4,875,329	4,925,619
Total Net Position	$ 10,029,804	$ 8,253,507

Capital assets, net increased by $1,258,310, or 19%, primarily due to cash outflows for land and vehicles/equipment during the year. Deferred outflows of resources increased by $443,776, or 73%, primarily due to actuarial changes in the County's pension inputs over the course of the year. Current liabilities increased by $168,536, or 35%, primarily due to greater payables due at the end of the year and timing of payments subsequent to yearend. Long-term liabilities decreased by $513,958, or 10%, primarily due to principal payments made towards debt in the current year.

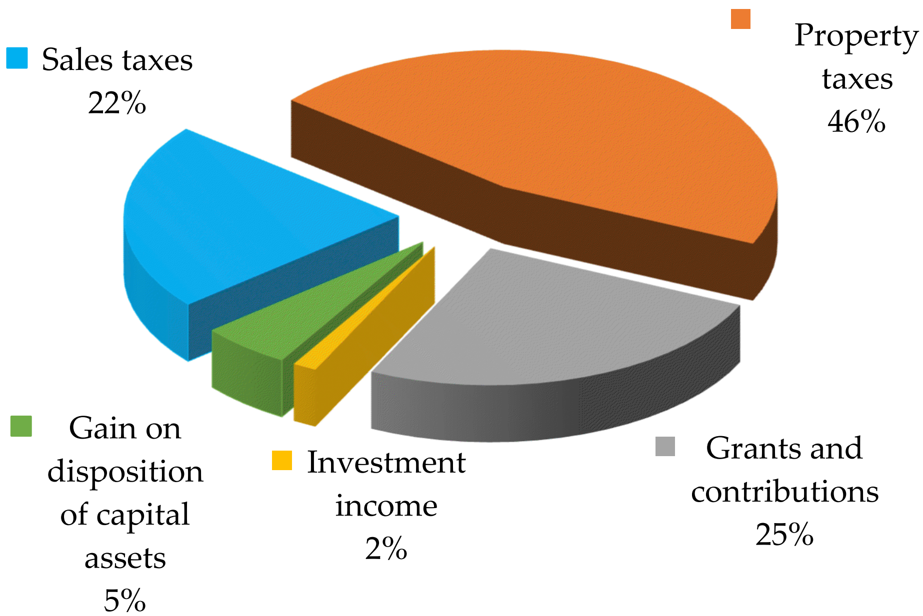
Statement of Activities:

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

	Governmental Activities Year ended 9/30/25	Governmental Activities Year ended 9/30/24
Revenues		
Sales taxes	$ 2,574,348	$ 2,263,666
Property taxes	5,364,564	4,273,081
Grants and contributions	2,961,712	3,957,455
Investment income	165,882	126,631
Other revenues	1,217	3,409
Gain on disposition of capital assets	622,483	20,000
Total Revenues	11,690,206	10,644,242
Expenses		
Personnel	7,165,135	8,147,411
Materials and services	1,965,957	1,427,888
Depreciation	670,544	541,244
Interest	112,273	94,316
Total Expenses	9,913,909	10,210,859
Change in Net Position	1,776,297	433,383
Beginning Net Position	8,253,507	7,820,124
Ending Net Position	$ 10,029,804	$ 8,253,507

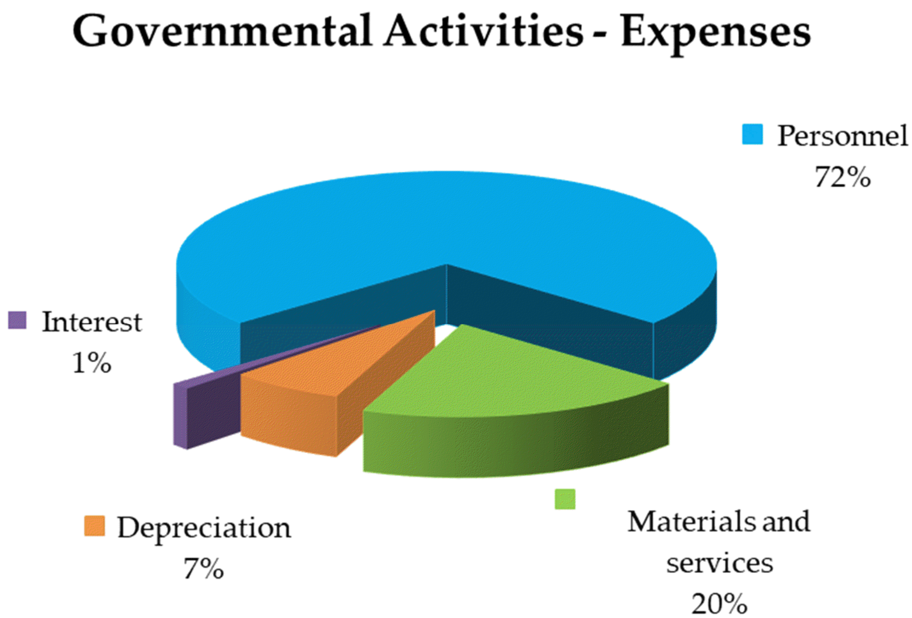
Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the District's activities.

Governmental Activities - Revenues



The District reported an increase in net position of $1,776,297. The increase was primarily due to an increase in property taxes and nonrecurring gains on disposition of capital assets in the current year. The increase in property tax revenues of $1,091,483, or 26%, over prior year is due to an increase in the taxable appraisal values for the District. Sales taxes increased by $310,682, or 14%, due to economic growth fueled by greater local purchases. Grants and contributions decreased by $995,743, or 25%, primarily due to greater nonrecurring Texas Interstate Fire Mutual Aid System (TIFMAS) and East Montgomery County Improvement District (EMCID) grants received in the prior year. Gains on disposition of capital assets increased by $602,483, or 100%, primarily due to nonrecurring reimbursements after tornado damages to Fire Station 154 and the District's 2010 Ferrara Pumper truck, which was destroyed in a vehicle accident.

This graph shows the governmental function expenses of the District:



Personnel expenses decreased by $982,276, or 12%, which is primarily due to a decrease in pension related expense and nonrecurring firefighter deployment hours incurred in the prior year. Materials and services increased by $538,069, or 38%, primarily due to greater vehicle/equipment repairs, insurance expense and nonrecurring Texas Intrastate Fire Mutual Aid System (TIFMAS) deployment equipment maintenance in the current year. Depreciation expense increased by $129,300, or 24%, primarily due to the acquisition of new capital assets in the current year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The District's general fund reflects a fund balance of $5,055,738. There was a decrease in the fund balance of $380,697 over the prior period. This decrease is mainly attributed to decreases in grants/contributions and increases in personnel and capital outlay expenses in the current year.

CAPITAL ASSETS

As of the end of the year, the District had invested $7,860,417 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles and equipment. Major capital asset events during the current year include the following:

- The District purchased Upfitting kits for (2) 2024 Ram 4500's totaling $53,984.
- The District purchased Upfitting kits for (4) 2024 Ram 2500's totaling $88,403.
- The District purchased Upfitting kits for (1) 2024 Ram 3500 for $19,272.
- The District purchased Upfitting kits for (1) 2024 Ram 2500 crew cab for $12,909.
- The District purchased (1) 2025 Ram 2500 for $88,263.
- The District purchased (1) 2025 Ram 3500 for $64,675.
- The District purchased (1) 2025 Ram 4500 for $71,246.
- The District purchased a SKID unit for $23,850.
- The District purchased a SpaceSaver Model 100A two cylinder fill station for $25,442.
- The District purchased a ES-100-28-18V Generator for $24,525.
- The District purchased a Rowe skid unit 19HP Kohler EFI engine for $20,000.
- The District purchased an aluminum truck bed and under boxes for Booster 151 for $14,800.
- The District purchased (20) X3 Pro 2018 Edition 4.5 w/cga parachute buckles totaling $167,900.
- The District purchased (34) portable XL-200P, full keypad, PGRN radios totaling $359,199.
- The District invested in improvements for Station 151 totaling $130,932.
- The District invested in improvements for Station 154 totaling $356,890.
- The District invested in .37369 acres of land at 13833 N US Highway 59 for $577,842.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than final budgeted revenues by $252,118 during the year. Actual general fund expenditures were greater than the final budgeted appropriations by $3,488,016. Other financing sources resulted in a positive budget variance of $840,531. These variances were the reasons for a net negative overall variance of $2,395,367 over the final budgeted amounts. For the current year, expenditures exceeded appropriations at the legal level of control by $3,488,016.

LONG TERM DEBT

The District's outstanding debt decreased by $689,001 during the year. The decrease was due to principal payments during the year. The total notes payable outstanding at yearend was $3,309,565.

More detailed information about the District's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District is located in Montgomery County, Texas. An increase in the overall property values in the County resulted in an increase in the assessed valuation of the District. The overall continued development within the District should continue to fuel increased property tax receipts in the coming year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be directed to the Fire Chief at 19870 FM 1485 West New Caney, TX 77357; 281-689-3112.

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FINANCIAL STATEMENTS

Montgomery County
Emergency Services District No. 7

STATEMENT OF NET POSITION (Page 1 of 2)

September 30, 2025

		Governmental Activities
Assets		
Current Assets		
Cash and cash equivalents	$	4,432,702
Investments		565,807
Receivables		1,181,909
Total Current Assets		6,180,418
Non-Current Assets		
Grant receivable, noncurrent portion		482,898
Capital assets, net of accumulated depreciation		
Capital assets - non-depreciable		971,280
Capital assets - net depreciable		6,889,137
Total Non-Current Assets		8,343,315
Total Assets		14,523,733
Deferred Outflows of Resources		
Pension contributions		424,642
Pension experience vs. assumptions		590,453
Change in assumptions		31,056
Pension investment losses		4,428
Total Deferred Outflows of Resources		1,050,579

Montgomery County
Emergency Services District No. 7

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2025

		Governmental Activities
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses		$ 609,638
Accrued interest		46,040
Debt due within one year		590,470
	Total Current Liabilities	1,246,148
Long-term liabilities		
Net pension liability		1,579,265
Debt due in more than one year		2,719,095
	Total Non-Current Liabilities	4,298,360
	Total Liabilities	5,544,508
Net Position		
Net investment in capital assets		4,550,852
Restricted for grant activities		603,623
Unrestricted		4,875,329
	Total Net Position	$ 10,029,804

See Notes to Financial Statements.

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Montgomery County
Emergency Services District No. 7

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2025

			Governmental Activities
Expenses			
Public safety-fire protection:			
Personnel		$	7,165,135
Materials and services			1,965,957
Depreciation			670,544
Interest			112,273
	Total Program Expenses		9,913,909
General Revenues			
Sales taxes		$	2,574,348
Property taxes			5,364,564
Capital grants			135,000
Contributions and donations - operating			2,826,712
Investment income			165,882
Other revenues			1,217
Gain on disposition of capital assets			622,483
	Total General Revenues		11,690,206
	Change in Net Position		1,776,297
	Beginning Net Position		8,253,507
	Ending Net Position	$	10,029,804

See Notes to Financial Statements.

Montgomery County
Emergency Services District No. 7

BALANCE SHEET

September 30, 2025

	General Fund
Assets	
Cash and cash equivalents	$ 4,432,702
Investments	565,807
Receivables:	
Property taxes	455,947
Sales taxes	432,614
Grant	603,623
Other	172,623
Prepaid expenses	61,630
Total Assets	6,724,946
Liabilities	
Accounts payable and accrued expenses	609,638
Total Liabilities	609,638
Deferred Inflows of Resources	
Unavailable revenue - property taxes	455,947
Unavailable revenue - grant receivable	603,623
Total Deferred Inflows of Resources	1,059,570
Fund Balances	
Nonspendable - prepaid items	61,630
Unassigned	4,994,108
Total Fund Balance	$ 5,055,738

See Notes to Financial Statements.

Montgomery County
Emergency Services District No. 7

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2025

Total fund balance	$	5,055,738
Amounts reported for governmental activities in the Statement of Net Position:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets - non-depreciable		971,280
Capital assets - net depreciable		6,889,137
Other long-term assets are not available to pay for current-period expenditures, and, therefore, are deferred in the governmental funds.		
Property taxes receivable		455,947
Grant receivable		603,623
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.		
Pension contributions		424,642
Pension experience vs. assumptions		590,453
Change in assumptions		31,056
Pension investment losses (earnings)		4,428
Assets recorded for governmental funds that are not assets for governmental activities due to differences in accounting method.		
Prepaid expenses		(61,630)
Long-term liabilities are not due in payable in the current period and, therefore, are not reported as liabilities in the government funds		
Net pension liability		(1,579,265)
Accrued interest		(46,040)
Non-current liabilities due in one year		(590,470)
Non-current liabilities due in more than one year		(2,719,095)
Net Position of Governmental Activities	$	10,029,804

See Notes to Financial Statements.

Montgomery County
Emergency Services District No. 7

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

For the Year Ended September 30, 2025

	General Fund
Revenues	
Property taxes	$ 5,251,139
Sales taxes	2,574,348
Capital grants	135,000
Contributions and donations	2,947,436
Investment income	165,882
Other revenues	1,217
Total Revenues	11,075,022
Expenditures	
Public safety	9,988,274
Capital outlay	1,558,453
Debt service:	
Principal	629,074
Interest	120,449
Total Expenditures	12,296,250
Other Financing Sources / (Uses)	
Insurance recoveries	840,531
Total Other Financing Sources / (Uses)	840,531
Net Change in Fund Balance	(380,697)
Beginning Fund Balance	5,436,435
Ending Fund Balance	$ 5,055,738

See Notes to Financial Statements.

Montgomery County
Emergency Services District No. 7

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

For the Year Ended September 30, 2025

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

Net change in fund balance	$	(380,697)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays was more than depreciation in the current period.		
Capital outlay		2,146,902
Depreciation		(670,544)
Impairment		(218,048)
Revenue in the Statement of Activities that does not provide current financial resources are not reported as revenue in the funds.		
Property taxes		113,425
Long term grant receivable		(120,724)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued interest		9,879
Pension (expense)/income		268,733
The issuance of long-term debt (i.e. leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal payments		689,001
Principal payment recorded as prepaid expense in governmental funds		(59,927)
Interest payment recorded as prepaid expense in governmental funds		(1,703)
Net Change in Net Position	$	1,776,297

See Notes to Financial Statements.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements and Reporting Entity

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

Montgomery County Emergency Services District No. 7 (the "District") operates under Chapter 775, "Emergency Services Districts" of V.T.C.A, Health and Safety Code. The District was converted from a Rural Fire Prevention District in 1995. The District is a duly organized emergency services district, created to protect life and property from fire and to conserve natural and human resources. The District consolidated their operations with Montgomery County Emergency Services District No. 11 ("District No. 11") on June 9, 2015 (the "merger date"). A new entity was formed on the merger date, under the original name of the District.

As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. The District has adopted Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Basis of Presentation Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the District as a whole. These statements include all activities of the primary government. Governmental activities are normally supported by property and sales taxes and intergovernmental revenues.

The Statement of Activities presents a comparison between general government expenses and general revenues of the District's governmental activities. Expenses, such as those used to fund the principal operations of District, are presented as general government expenses. Revenues, such as taxes and investment earnings, are presented as general revenues.

The fund financial statements provide information about the government's funds. Separate statements for each fund category are presented.

The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for the operations of the District's emergency service operations and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to property taxes and sales taxes. Expenditures include all costs associated with the daily operations and contractual obligations of the District.

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

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

C. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 are reported using the pools' share price.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act ("PFIA"), Chapter 2256, of the Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Fully collateralized repurchase agreement, as defined by PFIA
- Bankers' acceptance if it has a maximum 270 day stated maturity from issuance date
- Commercial paper if it has a maximum 270 day stated maturity from issuance date
- No-load money market mutual funds registered with the Securities and Exchange Commission, weighted average maturity of less than two years and rated AAA
- Statewide investment pools

2. Receivables and Interfund Transactions

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

3. Property Taxes

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and vehicle assets (e.g., fire trucks, building, fire apparatus, and similar items) are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 to 12 years
Furniture and other equipment	3 to 10 years
Buildings and improvements	10 to 30 years

5. Deferred Outflows/Inflows of Resources

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

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

6. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (board of commissioners) has by resolution authorized the treasurer to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Compensated Absences

The District accounts for vacation and sick leave in accordance with the provisions of GASB Statement No. 101, Compensated Absences.

It is the District's policy to permit employees to accumulate earned, but unused paid time off (PTO) based on years of service, subject to a maximum carryover of 360 hours at fiscal year end. Unused PTO is forfeited upon resignation or separation and is not paid out at termination. Once per year, employees may elect to sell back accrued PTO at 75% of their regular hourly rate. As of September 30, 2025, all PTO eligible for payment under the buy-back program had been paid and no employees held remaining PTO balances. In accordance with GASB Statement No. 101, no liability for compensated absences is reported as of September 30, 2025.

Sick leave is considered a non-separation benefit and is recognized as a liability only to the extent it is probable that the leave will be used for qualifying absences and the amount can be reasonably estimated. Because unused sick leave is not paid upon separation from employment, the District does not record a liability for sick leave beyond amounts expected to be taken as paid absences in the future.

10. Long-Term Obligations

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

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

11. Estimates

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

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and pension expense have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. See Note V.C. for additional information.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term assets, such as property tax receivable, are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "Revenue in the Statement of

Activities that does not provide current financial resources are not reported as revenue in the funds."

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The legal level of control is the fund level. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

A budget is prepared by fund and function. Appropriations lapse at the end of the year. For the year ended September 30, 2025, expenditures exceeded appropriations at the legal level of control by $3,488,016.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2025, the District had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)
Certificates of deposit	$ 565,807	0.85
External investment pools	1,940,202	0.04
Total carrying value	$ 2,506,009	
Portfolio weighted average maturity		0.22

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds.

Custodial Credit Risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District requires funds on deposit at the depository bank to be collateralized by securities when in excess of FDIC coverage. As of September 30, 2025, checking deposits were collateralized by an amount over and above the yearend balances exceeding FDIC coverage.

The District's external investment pools consist of investments in Texas CLASS.

Texas CLASS

Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated 'AAAm' by Standard and Poor's Ratings Services. The 'AAAm' principal stability fund rating is the highest assigned to principal stability government investment pools and is a direct reflection of Texas CLASS's outstanding credit quality and management. At September 30, 2025, the fair value of the position in Texas CLASS approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

		General Fund
Property taxes	$	455,947
Sales taxes		432,614
Grant receivable		603,623
Other		172,623
Total	$	1,664,807

The District's grant receivable of $603,623 is owed from the East Montgomery County Improvement District ("EMCID") related to the May 29, 2020 grant agreement. The grant agreement relates to funding debt service payments for the purchase of a fire truck by the District. As a part of the grant agreement, EMCID agreed to pay the principal amount of the note payable and one half of the interest expense. The principal amount is fully accrued at yearend, and the portion related to interest is accrued with time.

The below schedule shows the future expected payments of the receivable:

Year ending September 30,	Grant receivable (per contract) Principal	Interest	Total
2026	$ 120,725	$ 8,271	128,996
2027	120,725	8,271	128,996
2028	120,725	8,271	128,996
2029	120,725	8,271	128,996
2030	120,723	8,271	128,994
	$ 603,623	$ 41,355	$ 644,978

C. Capital Assets

The following is a summary of changes in capital assets for the period ended September 30, 2025:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	$ 393,438	$ 577,842	$ -	$ 971,280
Total capital assets not being depreciated	393,438	577,842	-	971,280
Capital assets, being depreciated:				
Buildings	4,634,353	534,682	(218,048) *	4,950,987
Vehicles and equipment	8,514,392	1,034,378	-	9,548,770
Total capital assets being depreciated	13,148,745	1,569,060	(218,048)	14,499,757
Less accumulated depreciation				
Buildings	(2,141,366)	(167,557)	-	(2,308,923)
Vehicles and equipment	(4,798,710)	(502,987)	-	(5,301,697)
Total accumulated depreciation	(6,940,076)	(670,544)	-	(7,610,620)
Net capital assets being depreciated	6,208,669	898,516	(218,048)	6,889,137
Total Capital Assets	$ 6,602,107	$ 1,476,358	$ (218,048)	$ 7,860,417

Depreciation expense was $670,544 for the year ended September 30, 2025.

* During the year the District endured a tornado that caused damage to their station #154. The related damage was accounted for using the restoration cost approach, which resulted in an impairment charge of $218,048 during the year. This amount was offset against the gain recognized from related insurance proceeds recognized.

D. Long-Term Obligations

The following is a summary of long-term obligations for the period ended September 30, 2025:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Notes payable:					
Due to State Comptroller, due in monthly installments through 2028, interest n/a	$ 307,414	$ -	$ (69,003)	$ 238,411	$ 75,276
2016 Ferrara Pumper, due in annual installments through 2025, interest at 2.84%	121,146	-	(121,146)	-	-
2019 Ferrara Pumper, due in annual installments through 2028, interest at 2.99%	233,695	-	(43,283)	190,412	44,946
2021 Pierce Enforcer Pumpers (2), due in annual installments through 2030, interest at 1.62%	696,304	-	(111,443)	584,861	113,247
New Station Loan, due in annual installments through 2037, interest at 4.15%	455,244	-	(27,142)	428,102	28,268
2017 Ferrara Pumper, due in annual installments through 2027, interest at 2.99%	200,186	-	(65,045)	135,141	66,990
2020 Ladder Truck, due in annual installments through 2030, interest at 2.25%	878,855	-	(117,164)	761,691	119,892
2024 RAMs (3), due in annual installments through 2031, interest at 5.25%	376,392	-	(45,878)	330,514	48,287
2024 Ferrara Pumper, due in annual installments through 2031, interest at 5.25%	729,330	-	(88,897)	640,433	93,564
Total Governmental Activities	$ 3,998,566	$ -	$ (689,001)	$ 3,309,565	$ 590,470
Long-term liabilities due in more than one year				$ 2,719,095	

These notes payable are secured by the underlying assets referenced above. The carrying value of these assets was $1,903,337 as of September 30, 2025.

As of September 30, 2025, the debt service requirements are as follows:

Year ending	Notes Payable		Due to State Comptroller		Total Debt	
September 30,	Principal	Interest	Principal	Interest	Principal	Interest
2026	$ 515,194	$ 108,681	$ 75,276	$ -	$ 590,470	$ 108,681
2027	532,113	90,060	75,276	-	607,389	90,060
2028	478,634	72,484	75,276	-	553,910	72,484
2029	494,748	56,370	12,583	-	507,331	56,370
2030	459,302	39,554	-	-	459,302	39,554
2031	352,054	24,086	-	-	352,054	24,086
2032	36,079	9,969	-	-	36,079	9,969
2033	37,576	8,472	-	-	37,576	8,472
2034	39,135	6,912	-	-	39,135	6,912
2035	40,760	5,288	-	-	40,760	5,288
2036	42,451	3,597	-	-	42,451	3,597
2037	43,108	1,834	-	-	43,108	1,834
	$ 3,071,154	$ 427,307	$ 238,411	$ -	$ 3,309,565	$ 427,307

V. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

C. Defined Benefit Pension Plan

1. Plan Description

The District provides retirement, disability, and death benefits for all its eligible employees through a nontraditional defined benefit pension plan in the statewide Texas County & District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of nearly 900 nontraditional defined contribution benefit plans. TCDRS, in the aggregate, issues a comprehensive annual financial report ("ACFR") on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Plan Initiation

In February 2017, the District began enrollment within the TCDRS defined benefit pension plan for all full and part-time employees. The District's initial contributions were submitted in March 2017.

2. Benefits Provided

The plan provisions are adopted by the District within the options available in Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 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 10 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

3. Eligible Participants

All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

4. Funding Policy

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

The District contributed using the ADCR of 9.82% for calendar year 2025, and 10.16% for calendar year 2024. The District's contributions for the year ending September 30, 2025 was $563,929.

The District adopted a rate of 7% as the contribution rate payable by the employee members for calendar years 2025 & 2024, respectively. The District may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

5. Contributions

The required contribution rates for fiscal year 2025 were determined as part of the December 31, 2024 actuarial valuation.

Additional information as of the three latest actuarial valuations also follows:

Valuation Date	12/31/2022	12/31/2023	12/31/2024
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent of payroll, closed	Level Percent of payroll, closed	Level Percent of payroll, closed
Amortization Period in years	18.3 years	15.7 years	15.8 years
Asset Valuation Method	5-year Smoothed Fund	5-year Smoothed Fund	5-year Smoothed Fund
Actuarial Assumptions:			
Investment Rate of Return *	7.50%	7.50%	7.50%
Projected Salary Increases *	4.70%	4.70%	4.70%
* Includes Inflation at stated-rate	2.50%	2.50%	2.50%
Cost-of Living Adjustments	0.0%	0.0%	0.0%

Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	71
Active employees	70
Total	141

<u>6. Net Pension Liability (Asset)</u>

The District's Net Pension Liability (Asset) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	4.70% average over career, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct Pub-2010, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Actuarial assumptions used in the December 31, 2024, valuation were based on the results of an actuarial experience study for the period January 1, 2017 – December 31, 2020, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 8.10% gross of administrative expenses. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected minus inflation) (2)
US Equities	Dow Jones U.S. Total Stock Market Index	13.00%	5.35%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (5)	25.00%	8.15%
Global Equities	MSCI World (net) Index	4.00%	5.15%
International Equities – Developed Markets	MSCI World Ex USA (net)	6.00%	4.75%
International Equities – Emerging Markets	MSCI Emerging Markets (net)	0.00%	4.75%
Investment-Grade Bonds	Bloomberg U.S. Aggregate Bond Index	3.00%	2.55%
Strategic Credit	FTSE High-Yield Cash-Pay Index	9.00%	3.70%
Direct Lending	Morningstar LSTA US Leveraged Loan TR USD Index	16.00%	6.85%
Distressed Debt	Cambridge Associates Distressed Securities Index (3)	4.00%	6.80%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	3.95%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	4.95%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (4)	6.00%	5.75%
Hedge Funds	Hedge Fund Research, Inc. (HFR) Fund of Funds Composite Index	6.00%	3.60%
Cash equivalents	90-day U.S. Treasury	2.00%	1.1%

(1) Target asset allocation adopted at the March 2025 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return for the asset class minus the assumed inflation rate of 2.35%, per Cliffwater's 2025 capital market assumptions.

(3) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability (Asset):

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset)(a) – (b)
Balance at 12/31/23	$ 3,135,796	$ 1,731,574	$ 1,404,222
Changes for the year:			
Service Cost	551,922	-	551,922
Interest on total pension liability (1)	279,115	-	279,115
Effect of plan changes (2)	-	-	-
Difference in experience gains or losses	573,182	-	573,182
Refund of contributions	(30,871)	(30,871)	-
Administrative expense	-	(1,596)	1,596
Member contributions	-	400,300	(400,300)
Net investment income (loss)	-	196,641	(196,641)
Employer contributions		581,007	(581,007)
Other (3)	-	52,824	(52,824)
Net changes	1,373,348	1,198,305	175,043
Balance at 12/31/24	$ 4,509,144	$ 2,929,879	$ 1,579,265

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.
(2) No plan changes valued
(3) Relates to allocation of system-wide items.

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the District, calculated using the discount rate of 7.60%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

1% Decrease 6.60%	Current Single Rate 7.60%	1% Increase 8.60%
$ 2,638,615	$ 1,579,265	$ 744,764

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the internet at www.tcdrs.com.

7. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ending September 30, 2025, the District recognized pension expense of $295,196.

At September 30, 2025, the District reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Investment losses (gains)	$ 4,428
Changes in actuarial assumptions	31,056
Differences between expected and actual economic experience	590,453
Contributions subsequent to the measurement date	424,642
Total	$ 1,050,579

The District reported $424,642 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2026.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2025	$ 85,509
2026	109,265
2027	73,262
2028	70,652
2029	74,909
Thereafter	212,340
	$ 625,937

D. Agreement with East Montgomery County Improvement District

On September 27, 2007, the District entered into an agreement (the "Agreement") with East Montgomery County Improvement District (EMCID). The Agreement stated that EMCID will provide a total loan (the "Loan") of $1,500,000 to the District for the purpose of hiring additional firefighting personnel and to provide expanded emergency services within its boundaries.

On September 22, 2009, the District approved an amendment to the Agreement in which the loan was defined as a grant (herein after referred to as the "Grant") and repayment is no longer a condition of the Agreement. Also as a part of the amendment, if a sales tax election was successful in November of 2009 for EMCID, EMCID will make an additional grant (the "Additional Grant") to the District in the amount of $600,000 to be used to hire additional firefighting personnel and provide expanded emergency services within its boundaries. This Additional Grant would be funded in equal amounts over a two year period, with the first funding being made on December 1, 2012 and the second on December 1, 2013.

The amended Agreement terms include a monthly donation (the "Monthly Donation") from EMCID to be paid to the District on April 1, 2010 and the first day of each subsequent month during the term of the Agreement. EMCID will also provide an additional monthly donation to the District in the amount of $6,250 (the Additional Donation") beginning on December 1, 2009, and the first day of each subsequent month during the term of the Agreement until the total of 12 consecutive Monthly Donations is equal to or greater than $263,000, at which time the Additional Donation shall end. The Monthly Donation is calculated based on the amount the District would have received from actual sales tax collected from the portion of the District that is within EMCID with the exception of the portion dedicated to the development referred to as the Earth Quest Tract. The term of the Agreement is for 25 years from the effective date and may be extended for an additional term of up to 25 years prior to the expiration of the original term.

On September 20, 2018, the District entered into an agreement (the "Agreement") with East Montgomery County Improvement District (EMCID). The Agreement stated that EMCID will provide a grant up to $1,248,301 (the "Grant") for payments to service the debt to finance the purchase of a fire truck for the District. The related purchase never occurred until after this grant agreement was later amended on May 29, 2020. Per the terms of the amended grant agreement, EMCID agreed to pay the principal portion of the fire truck purchase up to $1,207,246, and half of the interest expense if the interest rate is 4.25% or below.

Grant revenue received from EMCID by the District during the year ended September 30, 2025, totaled $1,504,242.

E. New Accounting Pronouncements

The District adopted GASB 101, *Compensated Absences* during the year. The goal of the standard is to create a more consistent model for accounting for compensated absences that can be applied to all types of compensated absence arrangements.

The new guidance introduces three criteria for recording a liability in financial statements prepared using the economic resources measurement focus (often referred to as a "full accrual" basis). A liability should be recognized for leave that has not been used if all of the following are true:

- The leave is attributable to services already rendered.
- The leave accumulates.
- The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means (likelihood of more than 50 percent).

This standard was applied retroactively and had no impact on sick leave liability as of September 30, 2024.

F. Subsequent Events

On October 3, 2025, the District acquired a 2025 fire dozer and a type III fire truck for $196,925 and $406,000, respectively. The acquisitions were financed with loans bearing interest of 4.9% per annum, and annual payments of principal and interest totaling $25,379 and $52,324, respectively, beginning on October 3, 2026 and concluding on October 3, 2035.

On January 30, 2026, the District acquired a 2025 ladder truck for $1,890,687. The acquisition was financed with a loan bearing interest of 4.2% per annum, and annual payments of principal and interest totaling $235,431 beginning on January 30, 2027 and concluding on January 30, 2036.

There were no other material subsequent events through July 30, 2026, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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Montgomery County
Emergency Services District No. 7

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended September 30, 2025

	Original & Final Budget	Actual	Variance Positive (Negative)	
Revenues				
Property taxes	$ 5,146,604	$ 5,251,139	$ 104,535	
Sales taxes	2,300,000	2,574,348	274,348	
Capital grants	135,000	135,000	-	
Contributions and donations	3,228,000	2,947,436	(280,564)	
Investment earnings	8,000	165,882	157,882	
Other income	5,300	1,217	(4,083)	
Total Revenues	10,822,904	11,075,022	252,118	
Expenditures				
Public safety	7,938,595	9,988,274	(2,049,679)	
Capital outlay	365,639	1,558,453	(1,192,814)	
Debt service:				
Principal	504,000	629,074	(125,074)	
Interest	-	120,449	(120,449)	
Total Expenditures	8,808,234	12,296,250	(3,488,016)	*
Other Financing Sources / (Uses)				
Insurance recoveries	-	840,531	840,531	
Total Other Financing Sources / (Uses)	-	840,531	840,531	
Net Change in Fund Balance	$ 2,014,670	(380,697)	$ (2,395,367)	
Beginning Fund Balance		5,436,435		
Ending Fund Balance		$ 5,055,738		

Notes to Required Supplementary Information:

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

* Expenditures exceeded appropriations at the legal level of control.

Montgomery County
Emergency Services District No. 7

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Years Ended

	12/31/2024	12/31/2023	12/31/2022
Total pension liability (asset)			
Service cost	$ 551,922	$ 247,883	$ 228,014
Interest (on the Total Pension Liability)	279,115	119,165	93,124
Changes in benefit terms	-	1,416,122	-
Differences between expected and actual experience	573,182	63,150	36,257
Changes of assumptions	-	-	-
Benefit payments, including refunds of part. contributions	(30,871)	(60,097)	(10,063)
Net change in total pension liability	1,373,348	1,786,223	347,332
Total pension liability - beginning	3,135,796	1,349,573	1,002,241
Total pension liability - ending (a)	$ 4,509,144	$ 3,135,796	$ 1,349,573
Plan fiduciary net position			
Contributions - employer	$ 581,007	$ 124,501	$ 104,963
Contributions - members	400,300	207,501	163,494
Net investment income (loss)	196,641	145,649	(86,045)
Benefit payments, including refunds of participant contributions	(30,871)	(60,097)	(10,063)
Administrative expenses	(1,596)	(904)	(762)
Other	52,824	14,134	37,292
Net change in plan fiduciary net position	1,198,305	430,784	208,879
Plan fiduciary net position - beginning	1,731,574	1,300,790	1,091,911
Plan fiduciary net position - ending (b)	$ 2,929,879	$ 1,731,574	$ 1,300,790
Fund's net pension (asset) / liability - ending (a) - (b)	$ 1,579,265	$ 1,404,222	$ 48,783
Plan fiduciary net position as a percentage of the total pension liability	64.98%	55.22%	96.39%
Covered payroll	$ 5,718,577	$ 4,150,019	$ 3,269,872
Fund's net position as a percentage of covered payroll	27.62%	33.84%	1.49%

Notes to schedule:

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

12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2014 [1]
$ 212,025	$ 160,740	$ 151,691	$ 134,475	$ 166,444
73,494	50,162	34,351	20,057	138,830
-	-	-	-	-
(32,612)	31,451	12,714	8,454	89,459
6,913	76,640	-	-	-
(24,710)	(20,413)	(5,091)	(2,438)	(21,654)
235,110	298,580	193,665	160,548	373,079
767,131	468,551	274,886	114,338	1,642,961
$ 1,002,241	$ 767,131	$ 468,551	$ 274,886	$ 2,016,040
$ 58,329	$ 58,741	$ 54,196	$ 52,753	$ 97,669
136,777	139,886	120,076	106,788	150,099
181,217	52,096	45,851	(465)	117,500
(24,710)	(20,413)	(5,091)	(2,438)	(21,654)
(589)	(538)	(382)	(225)	(1,446)
5,030	5,323	5,862	4,693	(105)
356,054	235,095	220,512	161,106	342,063
735,857	500,762	280,250	119,144	1,697,201
$ 1,091,911	$ 735,857	$ 500,762	$ 280,250	$ 2,039,264
$ (89,670)	$ 31,274	$ (32,211)	$ (5,364)	$ (23,224)
108.95%	95.92%	106.87%	101.95%	101.15%
$ 2,735,542	$ 2,797,723	$ 2,401,516	$ 2,135,754	$ 2,144,271
-3.28%	1.12%	-1.34%	-0.25%	-1.08%

Montgomery County
Emergency Services District No. 7

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

For The Years Ended September 30,

	2025	2024	2023	2022
Actuarially determined employer contributions	$ 563,929	$ 477,156	$ 118,873	$ 92,528
Contributions in relation to the actuarially determined contribution	563,929	477,156	118,873	92,528
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Annual covered employee payroll	$ 5,695,189	$ 5,528,814	$ 3,897,446	$ 3,156,899
Employer contributions as a percentage of covered employee payroll	9.90%	8.63%	3.05%	2.93%

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

2) Payroll shown for 2017 is based on a start date in February 2017 to be consistent with time period contributions being made.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	15.8 years
Asset Valuation Method	5 year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career.
Investment Rate of Return	7.50%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Other Information:

Notes	There were no benefit changes during the year.

2021	2020	2019	2018	2017 [1]
$ 57,577	$ 54,998	$ 55,490	$ 50,121	$ 27,154
57,577	54,998	55,490	50,121	27,154
$ -	$ -	$ -	$ -	$ -
$ 2,719,171	$ 2,592,950	$ 2,386,697	$ 2,031,266	$ 1,099,904 [2]
2.12%	2.12%	2.32%	2.47%	2.47%