

**MONTGOMERY COUNTY
EMERGENCY SERVICES DISTRICT NO. 8**

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2012

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Board of Commissioners
Montgomery County Emergency
Services District No. 8
Montgomery County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and major fund of Montgomery County Emergency Services District No. 8 (the "District"), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of District as of September 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Commissioners
Montgomery County Emergency
Services District No. 8

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 29 and the Schedule of Funding Progress – Pension Plan on page 30 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.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The other supplementary information on pages 32 through 39 is presented for purposes of additional analysis and is 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 financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

March 4, 2013

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Management's discussion and analysis of Montgomery County Emergency Services District No. 8's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the District's financial statements, which begin on page 8.

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 Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance. This report also includes 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 portion of these statements provides 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 first of the government-wide statements is the Statement of Net Assets. This information is found in the Statement of Net Assets column on page 8. The Statement of Net Assets is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets 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 government-wide portion of the Statement of Activities on page 10 reports how the District's net assets 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 one governmental fund type. The General Fund accounts for resources not accounted for in another fund, property tax revenues, costs of assessing and collecting taxes and general expenditures.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund financial 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 Assets on page 9 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities on page 11 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 12 through 27 in this report.

OTHER INFORMATION

In addition to the basic 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 assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$6,350,348 as of September 30, 2012.

A portion of the District's net assets reflects its investment in capital assets (e.g. land, buildings, emergency vehicles and equipment), less any debt used to acquire those assets that is still outstanding. The District uses these assets to provide fire fighting and fire prevention services within the District.

The following is a comparative analysis of government-wide changes in net assets:

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Assets		
	2012	2011	Change Positive (Negative)
Current and Other Assets	\$ 3,247,402	\$ 1,514,633	\$ 1,732,769
Capital Assets (Net of Accumulated Depreciation)	<u>9,578,856</u>	<u>8,737,509</u>	<u>841,347</u>
Total Assets	<u>\$ 12,826,258</u>	<u>\$ 10,252,142</u>	<u>\$ 2,574,116</u>
Long-Term Liabilities	\$ 5,527,199	\$ 5,436,991	\$ (90,208)
Other Liabilities	<u>948,711</u>	<u>687,364</u>	<u>(261,347)</u>
Total Liabilities	<u>\$ 6,475,910</u>	<u>\$ 6,124,355</u>	<u>\$ (351,555)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 3,369,698	\$ 2,947,352	\$ 422,346
Unrestricted	<u>2,980,650</u>	<u>1,180,435</u>	<u>1,800,215</u>
Total Net Assets	<u>\$ 6,350,348</u>	<u>\$ 4,127,787</u>	<u>\$ 2,222,561</u>

The following table provides a summary of the District's operations for the years ended September 30, 2012, and September 30, 2011. The District's net assets increased by \$2,222,561, accounting for a 53.8% increase in net assets.

	Summary of Changes in the Statement of Activities		
	2012	2011	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 3,568,983	\$ 3,472,381	\$ 96,602
Sales Tax Receipts	3,654,428		3,654,428
Other Revenues	<u>112,360</u>	<u>255,433</u>	<u>(143,073)</u>
Total Revenues	\$ 7,335,771	\$ 3,727,814	\$ 3,607,957
Expenses for Services	<u>(5,113,210)</u>	<u>(3,729,534)</u>	<u>(1,383,676)</u>
Change in Net Assets	\$ 2,222,561	\$ (1,720)	\$ 2,224,281
Net Assets, Beginning of Year	<u>4,127,787</u>	<u>4,129,507</u>	<u>(1,720)</u>
Net Assets, End of Year	<u>\$ 6,350,348</u>	<u>\$ 4,127,787</u>	<u>\$ 2,222,561</u>

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's fund balance as of September 30, 2012, was \$2,964,196, an increase of \$1,724,811 from the prior year. This increase was primarily due to the receipt of sales tax revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the current fiscal year. The District had a total positive variance for the year of \$1,376,522. The positive variance was primarily caused by sales tax receipts being more than budgeted.

CAPITAL ASSETS

The District's investment in capital assets as of September 30, 2012, amounts to \$9,578,856 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

Capital assets events during the current fiscal year included the following:

Construction in Progress:

- Station 11-4 design

Completed Projects:

- Unit 117-2011 Chevy Tahoe equipment
- Unit 118-2012 Chevy Tahoe
- Unit 119-2012 Chevy Suburban
- Unit 120-Ferrara HD107 Ladder Truck
- Polaris Sportsman
- Polaris Ranger
- 20 Foot Trailer
- IT System Upgrade
- Fitness equipment
- Rescue Boat
- Unit 114-2010 Pumper equipment
- Unit 125-2005 Ferrara Ignitor Pumper and equipment
- Unit 126-2012 Chevy Tahoe

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

CAPITAL ASSETS (Continued)

Capital Assets At Year-End Net of Accumulated Depreciation			
	2012	2011	Net Increase (Decrease)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,482,883	\$ 1,482,883	\$
Construction in Progress	123,015		123,015
Capital Assets Net of Accumulated Depreciation:			
Buildings and Improvements	4,037,601	4,227,006	(189,405)
Vehicles and Equipment	<u>3,935,357</u>	<u>3,027,620</u>	<u>907,737</u>
Total Net Capital Assets	<u>\$ 9,578,856</u>	<u>\$ 8,737,509</u>	<u>\$ 841,347</u>

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 total debt payable of \$6,244,846.

The changes in the debt position of the District during the fiscal year ended September 30, 2012, are summarized as follows:

Capital Leases Payable, October 1, 2011	\$ 2,747,124
Add: Capital Lease Proceeds	1,311,407
Less: Capital Lease Principal Paid	<u>413,685</u>
Capital Leases Payable, September 30, 2012	<u>\$ 3,644,846</u>
Notes Payable, October 1, 2011	\$ 3,211,231
Less: Note Principal Paid	<u>611,231</u>
Notes Payable, September 30, 2012	<u>\$ 2,600,000</u>

CONTACTING THE DISTRICT'S FINANCIAL 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. 8, c/o Coveler & Katz, P.C., 820 Gessner, Suite 1710, Houston, TX 77024.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2012

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash, Note 4	\$ 290,081	\$	\$ 290,081
Investments, Note 4	2,491,584		2,491,584
Cash with Montgomery County	861		861
Receivables:			
Property Taxes Receivable	90,347		90,347
Penalty and Interest on Delinquent Taxes	33,248		33,248
Sales Tax Receipts	339,000		339,000
Accrued Interest	2,073		2,073
Prepaid Costs	208		208
Land, Note 5		1,482,883	1,482,883
Construction in Progress, Note 5		123,015	123,015
Capital Assets (Net of Accumulated Depreciation), Note 5		<u>7,972,958</u>	<u>7,972,958</u>
TOTAL ASSETS	<u>\$ 3,247,402</u>	<u>\$ 9,578,856</u>	<u>\$ 12,826,258</u>
LIABILITIES			
Accounts Payable	\$ 120,152	\$	\$ 120,152
Payroll Taxes Payable	39,459		39,459
Deferred Revenues:			
Property Taxes	90,347	(90,347)	
Penalty and Interest on Delinquent Taxes	33,248	(33,248)	
Accrued Interest Payable		71,453	71,453
Capital Leases Payable:			
Due Within One Year, Note 6		487,710	487,710
Due After One Year, Note 6		3,157,136	3,157,136
Notes Payable:			
Due Within One Year, Note 7		229,937	229,937
Due After One Year, Note 7		<u>2,370,063</u>	<u>2,370,063</u>
TOTAL LIABILITIES	<u>\$ 283,206</u>	<u>\$ 6,192,704</u>	<u>\$ 6,475,910</u>
FUND BALANCE/NET ASSETS			
FUND BALANCE			
Nonspendable:			
Prepaid Costs	\$ 208	\$ (208)	\$
Restricted for Capital Outlay	35,688	(35,688)	
Unassigned	<u>2,928,300</u>	<u>(2,928,300)</u>	
TOTAL FUND BALANCE	<u>\$ 2,964,196</u>	<u>\$ (2,964,196)</u>	<u>\$ -0-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,247,402</u>		
NET ASSETS			
Invested in Capital Assets, Net of Related Debt		\$ 3,369,698	\$ 3,369,698
Unrestricted		<u>2,980,650</u>	<u>2,980,650</u>
TOTAL NET ASSETS		<u>\$ 6,350,348</u>	<u>\$ 6,350,348</u>

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

**MONTGOMERY COUNTY EMERGENCY SERVICE DISTRICT NO. 8
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total Fund Balance – Governmental Funds		\$ 2,964,196
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Land, construction in progress and capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		9,578,856
Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2011 and prior tax levies became part of recognized revenues in the governmental activities of the District.		123,595
Long-term 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	\$ (71,453)	
Capital Leases Payable Within One Year	(487,710)	
Capital Leases Payable After One Year	(3,157,136)	
Notes Payable Within One Year	(229,937)	
Notes Payable After One Year	<u>(2,370,063)</u>	<u>(6,316,299)</u>
Total Net Assets – Governmental Activities		<u>\$ 6,350,348</u>

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

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Adjustments	Statement of Activities
REVENUES			
Property Taxes	\$ 3,575,072	\$ (6,089)	\$ 3,568,983
Penalty and Interest	33,138	(2,347)	30,791
Investment Revenues	4,667		4,667
Sales Tax Receipts, Note 12	3,654,428		3,654,428
Grant Revenues, Note 8	8,751		8,751
Sale of Assets	36,248		36,248
Miscellaneous Revenues	<u>31,903</u>		<u>31,903</u>
TOTAL REVENUES	<u>\$ 7,344,207</u>	<u>\$ (8,436)</u>	<u>\$ 7,335,771</u>
EXPENDITURES/EXPENSES			
Service Operations:			
District Services:			
Department Administration	\$ 298,352	\$	\$ 298,352
Department Operations	503,937		503,937
Salaries and Benefits	2,905,618		2,905,618
Accounting and Auditing Fees	38,303		38,303
Appraisal District Fees	30,820		30,820
Commissioner Fees	5,450		5,450
Legal Fees-General	50,464		50,464
Legal Fees Delinquent Tax Collections	9,508		9,508
Sales Tax Consultant	6,000		6,000
Tax Assessor/Collector Fees	3,353		3,353
Other	8,807		8,807
Depreciation, Note 5		940,447	940,447
Capital Outlay	1,781,794	(1,781,794)	
Debt Service:			
Principal	1,024,916	(1,024,916)	
Interest	171,427	48,670	220,097
Refinancing Costs	<u>92,054</u>		<u>92,054</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 6,930,803</u>	<u>\$ (1,817,593)</u>	<u>\$ 5,113,210</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 413,404</u>	<u>\$ (413,404)</u>	<u>\$ -0-</u>
OTHER FINANCING SOURCES (USES)			
Capital Lease Financing, Note 6	<u>\$ 1,311,407</u>	<u>\$ (1,311,407)</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	\$ 1,724,811	\$ (1,724,811)	\$
CHANGE IN NET ASSETS		2,222,561	2,222,561
FUND BALANCE/NET ASSETS – OCTOBER 1, 2011	<u>1,239,385</u>	<u>2,888,402</u>	<u>4,127,787</u>
FUND BALANCE/NET ASSETS – SEPTEMBER 30, 2012	<u>\$ 2,964,196</u>	<u>\$ 3,386,152</u>	<u>\$ 6,350,348</u>

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

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net Change in Fund Balance – Governmental Funds	\$ 1,724,811
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report property tax revenues when collected. However, in the Statement of Activities, revenues are recorded in the accounting period for which the taxes are assessed.	(6,089)
Governmental funds report delinquent tax penalty and interest when collected. However, in the Statement of Net Assets, revenues are recorded when the penalty and interest are assessed.	(2,347)
Governmental funds do not account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(940,447)
Governmental funds report capital assets as expenditures in the period purchased. However, in the Statement of Net Assets, capital assets are increased by new purchases that meet District’s threshold for capitalization, and are owned and maintained by the District. All other capital asset purchases are expensed in the Statement of Activities.	1,781,794
Governmental funds report capital lease and note principal payments as expenditures. However, in the government-wide statements, principal payments decrease long-term liabilities and the Statement of Activities is not affected.	1,024,916
Governmental funds report interest payments on capital leases and notes as expenditures in the year paid. However, in the government-wide statements, interest is accrued through fiscal year end.	(48,670)
Governmental funds record proceeds for capital leases as an other financing source. However, in the government-wide statements, a capital lease is recorded as a liability and the Statement of Activities is not affected.	<u>(1,311,407)</u>
Change in Net Assets – Governmental Activities	<u>\$ 2,222,561</u>

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

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1. CREATION OF DISTRICT

Montgomery County Emergency Services District No. 8, located in Montgomery County, Texas (the "District"), was created as a political subdivision of the State of Texas under the provision of Section 48-e of Article III of the State Constitution in accordance with Title 44, Article 2351a-6 of The Revised Civil Statutes of the State of Texas. The District was originally created as a rural fire prevention district and confirmed by voters at an election held November 3, 1987. Effective October 11, 1997, by the vote of the taxpayers at an election held on September 6, 1997, the District was converted to an emergency services district. The purpose of the District is to protect life and property from fire and to conserve natural resources. The District operates under Chapter 775 of the Health and Safety Code.

The District is governed by a Board of Commissioners consisting of five individuals residing within the District who are appointed by Montgomery County. The Board of Commissioners sets the policies of the District.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic 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 GASB has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent municipality. The District does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the District's basic financial statements.

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.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

The 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 Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets 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 Assets – This component of net assets consists of external constraints placed on the use of net 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.
- Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of “Restricted” or “Invested in Capital Assets, Net of Related Debt.”

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 Assets and the Statement of Activities display information about the District as a whole. The District’s Statement of Net Assets 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 Assets 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 Assets.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Government-Wide Financial Statements (Continued)

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 statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Funds

The District has one governmental fund which is considered to be a major fund.

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

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 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.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include land, buildings, emergency vehicles and equipment, are reported in the government-wide Statement of Net Assets. 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 an expenditure 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.

Personal tangible assets are capitalized if they have an original cost of \$500 or more and a useful life of at least two years. All other capital assets are capitalized if they have an original cost of \$5,000 or more and a useful life of at least two years. 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	5-40
Vehicles and Equipment	5-15

Budgeting

In compliance with governmental accounting principles, the Board of Commissioners annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

Payments are made into the social security system for employees. The Internal Revenue Service has determined that fees of office received by Commissioners are considered to be wages subject to federal income tax withholding for payroll tax purposes only. See Note 9 for the District's defined benefit plan and defined contribution plan. A separate pension plan has not been established for the Commissioners.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Assets 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 assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

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.

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.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Subsequent Events

In preparing these financial statements, management has evaluated and disclosed all material subsequent events through March 4, 2013, which is the date these statements were available to be issued.

NOTE 3. TAX LEVY

The voters of the District approved the levy and collection of an ad valorem tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District. During the year ended September 30, 2012, the District levied an ad valorem tax at the rate of \$0.10 per \$100 of assessed valuation, which resulted in a tax levy of \$3,560,782 on the adjusted taxable valuation of \$3,560,721,889 for the 2011 tax year.

The District's tax calendar is as follows:

- Levy Date - Before the later of September 30 or the 60th day after receipt of 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.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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.

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 \$1,635,081 and the bank balance was \$1,665,342. Of the bank balance, \$1,615,293 was covered by federal depository insurance and the balance was collateralized with securities held in a third-party depository in the District’s name.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at September 30, 2012, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 269,788	\$ 1,345,000	\$ 1,614,788
ESCROW ACCOUNT	20,293		20,293
TOTAL	\$ 290,081	\$ 1,345,000	\$ 1,635,081

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.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

All investments are recorded at cost, which the District considers to be fair value. 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. manage the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of pool shares.

As of September 30, 2012, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND -</u>					
TexPool	\$ 1,131,189	\$ 1,131,189	\$	\$	\$
Certificates of Deposit	1,345,000	1,345,000			
Money Market Mutual Funds	<u>15,395</u>	<u>15,395</u>			
TOTAL INVESTMENTS	<u>\$ 2,491,584</u>	<u>\$ 2,491,584</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2012, 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 positions can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012:

	<u>October 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2012</u>
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 1,482,883	\$	\$	\$ 1,482,883
Construction in Progress	<u> </u>	<u>1,781,794</u>	<u>1,658,779</u>	<u>123,015</u>
Total Capital Assets Not Being Depreciated	<u>\$ 1,482,883</u>	<u>\$ 1,781,794</u>	<u>\$ 1,658,779</u>	<u>\$ 1,605,898</u>
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 4,440,628	\$	\$	\$ 4,440,628
Vehicles and Equipment	<u>4,282,299</u>	<u>1,658,779</u>	<u>41,319</u>	<u>5,899,759</u>
Total Capital Assets Subject to Depreciation	<u>\$ 8,722,927</u>	<u>\$ 1,658,779</u>	<u>\$ 41,319</u>	<u>\$ 10,340,387</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ 213,622	\$ 189,405	\$	\$ 403,027
Vehicles and Equipment	<u>1,254,679</u>	<u>751,042</u>	<u>41,319</u>	<u>1,964,402</u>
Total Accumulated Depreciation	<u>\$ 1,468,301</u>	<u>\$ 940,447</u>	<u>\$ 41,319</u>	<u>\$ 2,367,429</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 7,254,626</u>	<u>\$ 718,332</u>	<u>\$ -0-</u>	<u>\$ 7,972,958</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,737,509</u>	<u>\$ 2,500,126</u>	<u>\$ 1,658,779</u>	<u>\$ 9,578,856</u>

NOTE 6. CAPITAL LEASES

On July 24, 2007, the District entered into an equipment lease-purchase agreement to finance the acquisition of a new 2008 Pierce Dash Ladder Truck. The financed amount was \$830,000 with Wells Fargo Brokerage Services, LLC with an incremental borrowing rate of 4.66% and 40 quarterly payments of \$26,077 beginning October 24, 2007, and ending July 24, 2017. On February 8, 2012, the lease was refinanced with Leasing 2, Inc. for \$683,956 with an incremental borrowing rate of 2.25%. Also included in the new lease was a 2005 Ferrara Igniter Custom Pumper in the amount of \$170,000. Twenty quarterly payments of \$36,255 are due beginning May 8, 2012, and ending February 8, 2017. Assets under this lease totaled \$1,012,739 at September 30, 2012. Accumulated depreciation through September 30, 2012, totaled \$512,504.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 6. CAPITAL LEASES (Continued)

On July 15, 2009, the District entered into an equipment lease-purchase agreement to finance the acquisition of a 2009 Chevy Tahoe 4-wheel drive special service package vehicle including emergency service equipment. The financed amount was \$70,000 with Wells Fargo Brokerage Services, LLC with an incremental borrowing rate of 4.54%. Ten semi-annual payments of \$7,903 are due beginning January 15, 2010, and ending July 15, 2014. Assets under this lease totaled \$70,604 at September 30, 2012. Accumulated depreciation through September 30, 2012, was \$47,740.

On January 8, 2010, the District entered into an equipment lease-purchase agreement to finance the acquisition of two fire trucks and related equipment. The financed amount was \$2,029,263 with Wells Fargo Securities, LLC with an incremental borrowing rate of 4.298%. Thirty-six quarterly payments of \$70,504 are due beginning January 15, 2011, and ending October 15, 2019. Assets under this lease totaled \$2,027,965 at September 30, 2012. Accumulated depreciation through September 30, 2012, was \$633,026.

On September 24, 2010, the District entered into an equipment lease-purchase agreement to finance the acquisition of a 2004 Smeal Pumper Tanker and a 2011 Chevrolet 2500HD 4x4 crew cab and miscellaneous equipment. The financed amount was \$235,000 with Houston Community Bank, N.A. with an incremental borrowing rate of 4.34%. Thirty-two quarterly payments of \$8,732 are due beginning December 24, 2010, and ending September 24, 2018. Assets under this lease totaled \$315,990 at September 30, 2012. Accumulated depreciation through September 30, 2012, was \$96,465.

Proceeds from the original capital leases above were deposited into Wells Fargo money market mutual fund escrow accounts and a Houston Community Bank escrow account. The District drew down payments to fund construction draws and equipment. The balance in the escrow accounts at September 30, 2012, is \$35,688.

On January 16, 2012, the District entered into an equipment lease-purchase agreement with Leasing 2, Inc. to finance the acquisition of a Ferrara Ladder Truck. The financed amount was \$1,141,407 with an incremental borrowing rate of 2.55%. Forty quarterly payments of \$32,367 are due beginning March 21, 2012, and ending December 21, 2021. Assets under their lease total \$1,145,566 at September 30, 2012. Accumulated depreciation through September 30, 2012, was \$89,134.

The following is a summary of transactions regarding capital leases payable for the year ended September 30, 2012:

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 6. CAPITAL LEASES (Continued)

Capital Leases Payable, October 1, 2011	\$ 2,747,124
Add: Capital Lease Proceeds	1,311,407
Less: Capital Lease Principal Paid	<u>413,685</u>
Capital Leases Payable, September 30, 2012	<u>\$ 3,644,846</u>
Capital Leases Payable:	
Due Within One Year	\$ 487,710
Due After One Year	<u>3,157,136</u>
Capital Leases Payable, September 30, 2012	<u>\$ 3,644,846</u>

The following is a schedule of future minimum lease payments under the capital leases as of September 30, 2012. The obligations of the District contain a non-appropriation provision.

Fiscal Year	Principal	Interest	Total
2013	\$ 487,710	\$ 119,527	\$ 607,237
2014	504,438	102,802	607,240
2015	505,797	85,635	591,432
2016	523,057	68,373	591,430
2017	468,243	50,680	518,923
2018-2023	<u>1,155,601</u>	<u>64,193</u>	<u>1,219,794</u>
	<u>\$ 3,644,846</u>	<u>\$ 491,210</u>	<u>\$ 4,136,056</u>

NOTE 7. NOTES PAYABLE

On October 12, 2007, the District entered into a \$3,000,000 real estate note with Wells Fargo Brokerage Services, LLC to finance the acquisition of land and construction costs for a new fire station at Birnham Woods (Station No. 2) with an interest rate of 4.899% with 60 quarterly payments of \$70,894 beginning September 30, 2008, and ending September 30, 2023. On September 30, 2009, the District entered into a \$720,000 construction loan agreement to add to the previous \$3,000,000 financing with an interest rate of 5.95% with 56 quarterly payments of \$19,037 beginning December 30, 2009, and ending September 30, 2023.

On December 30, 2011, these notes were combined and refinanced with Trustmark Bank for \$2,600,000 with an interest rate of 2.65%. The District will make ten annual payments of \$299,985 beginning December 30, 2012, and ending December 30, 2021.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 7. NOTES PAYABLE (Continued)

The following is a summary of transactions regarding notes payable for the year ended September 30, 2012:

Notes Payable, October 1, 2011	\$	3,211,231
Less: Note Principal Paid		<u>611,231</u>
Notes Payable, September 30, 2012		<u>\$ 2,600,000</u>
Notes Payable:		
Due Within One Year	\$	229,937
Due After One Year		<u>2,370,063</u>
Notes Payable, September 30, 2012		<u>\$ 2,600,000</u>

As of September 30, 2012, debt service requirements on the note are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 229,937	\$ 70,048	\$ 299,985
2014	236,306	63,679	299,985
2015	242,655	57,330	299,985
2016	249,175	50,810	299,985
2017	255,749	44,236	299,985
2018	262,741	37,244	299,985
2019	269,801	30,184	299,985
2020	277,050	22,935	299,985
2021	284,450	15,535	299,985
2022	<u>292,136</u>	<u>7,849</u>	<u>299,985</u>
	<u>\$ 2,600,000</u>	<u>\$ 399,850</u>	<u>\$ 2,999,850</u>

NOTE 8. GRANT REVENUES

During the current fiscal year, the District received grant revenues of \$5,847 from the Texas Department of Public Safety for disaster assistance related to the 2011 wild fires.

The District was awarded a grant under UASI ICS Simulator training reimbursement program. During the current fiscal year the District received \$2,904 from the City of Houston in regards to this program.

NOTE 9. PENSION PLANS

Defined Benefit Plan Description

Effective July 1, 2010, the District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 624 nontraditional defined benefit pension plans.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9. PENSION PLANS (Continued)

Defined Benefit Plan Description (Continued)

TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

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

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. 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 District'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.

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 District based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually.

The District contributed using an actuarially determined rate of 4.09% for 2011 and 4.05% for 2012. The contribution rate payable by the employee members for calendar years 2011 and 2012 is 7.0% as adopted by the governing body of the District. The employee contribution rate and the District contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

Annual Pension Cost

For the District's accounting year ending September 30, 2012, the annual pension cost for the TCDRS plan for its employees was \$95,619, and employee contributions were \$164,571.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*, parameters based

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9. PENSION PLANS (Continued)

Defined Benefit Plan Description (Continued)

Annual Pension Cost (Continued)

on the actuarial valuations as of December 31, 2011, the basis for determining the contribution rates for calendar year 2012. The December 31, 2011 actuarial valuation is the most recent valuation.

	<u>Actuarial Valuation Information</u>	
Actuarial valuation date	12/31/10	12/31/11
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Percentage	Level Percentage
Amortization period	20	20
Asset Valuation Method	SAF: 10-year smoothed value ESF: Fund Value	SAF: 10-year smoothed value ESF: Fund Value
Actuarial Assumptions:		
Investment return ¹	8.00%	8.00%
Projected salary increases ¹	5.40%	5.40%
Inflation	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%

¹ Includes inflation at the stated rate.

Trend Information for the
Retirement Plan for the Employees of the District

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2012	\$ 260,190	100%	\$ -0-
September 30, 2011	\$ 147,890	100%	\$ -0-

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9. PENSION PLANS (Continued)

Defined Benefit Plan Description (Continued)

Funding Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 80.85% funded. The actuarial accrued liability for benefits was \$302,896 and the actuarial value of the assets was \$244,886, resulting in an unfunded actuarial accrued liability (UAAL) of \$58,010. The covered payroll (annual payroll of active employees covered by the plan) was \$1,604,061, and the ratio of the UAAL to the covered payroll was 3.62%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements on page 31, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Deferred Compensation Plan Description

On July 2, 2012, the District approved an administrative agreement with Nationwide Retirement Solutions, Inc. to provide a deferred compensation plan to eligible District employees. It is the District's intent that this plan be an "Eligible Deferred Compensation Plan" in the meaning of Section 457 of the Internal Revenue Code of 1986, as amended, and that it be administered in a manner which is consistent with the requirements of that statute so that the federal income taxation of compensation deferred may be deferred until the compensation and any income attributable thereto is paid or otherwise made available under the terms of this plan. The plan becomes effective on October 1, 2012.

NOTE 10. MONTGOMERY COUNTY HOSPITAL DISTRICT AGREEMENT

The District has a lease agreement with Montgomery County Hospital District ("MCHD") for housing facilities at 335 Volunteer Lane to accommodate one EMS ambulance and related EMS crew personnel. The term of the agreement is 12 months, and provided that MCHD is not in default in performance, MCHD shall have the option to renew this agreement for an additional six months. The term begins October 1 and terminates on September 30.

The District will be solely responsible for maintenance, upkeep, and repairs to the EMS station. The District is not required to make the improvements or repairs to the EMS station, except repairs as may be needed for normal maintenance operations.

MCHD agrees to pay the District rent of \$800 per month. During the current fiscal year, the District recorded revenue of \$9,600 related to this lease.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and errors and omissions, for which the District carries commercial insurance. The District also participates in the Texas Municipal League Intergovernmental Risk Pool ("TML") to provide general liability, auto liability, errors and omissions liability and worker's compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. During the current fiscal year, the District's net contribution to the fund for this insurance coverage was \$41,920. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 12. SALES TAX ELECTION

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 14, 2011, the voters of the District approved the establishment and adoption of a sales and use tax of up to a maximum of one percent. On May 24, 2011, 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 for those areas contained within the corporate limits of the City of Oak Ridge North, effective October 1, 2011.

During the current fiscal year, the District recorded revenues \$3,654,428 from sales tax receipts.

NOTE 13. SUBSEQUENT EVENT

On November 15, 2012, subsequent to year end, the District entered into a \$3,325,000 construction loan with Capital One Public Funding, LLC to finance the construction of Station 11-4. The note bears interest at the rate of 2.54% per annum. The District will make twenty semi-annual payments of \$189,489 beginning June 1, 2013, and ending December 1, 2022.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2012

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 3,566,821	\$ 3,566,821	\$ 3,575,072	\$ 8,251
Penalty and Interest			33,138	33,138
Investment Revenues	8,000	8,000	4,667	(3,333)
Sales Tax Receipts	2,000,000	2,000,000	3,654,428	1,654,428
Grant Revenues			8,751	8,751
Sale of Assets			36,248	36,248
Miscellaneous Revenues	<u>9,600</u>	<u>9,600</u>	<u>31,903</u>	<u>22,303</u>
TOTAL REVENUES	<u>\$ 5,584,421</u>	<u>\$ 5,584,421</u>	<u>\$ 7,344,207</u>	<u>\$ 1,759,786</u>
EXPENDITURES				
Service Operations:				
District Services:				
Department Administration	\$ 291,097	\$ 290,572	\$ 298,352	\$ (7,780)
Department Operations	439,708	476,733	503,937	(27,204)
Salaries and Benefits	2,940,645	2,940,645	2,905,618	35,027
Accounting and Auditing Fees	39,000	39,000	38,303	697
Appraisal District Fees	26,760	26,760	30,820	(4,060)
Commissioner Fees	15,000	15,000	5,450	9,550
Legal Fees-General	20,000	40,000	50,464	(10,464)
Legal Fees-Delinquent Tax Collections			9,508	(9,508)
Sales Tax Consultant		6,000	6,000	
Tax Assessor/Collector Fees	3,500	3,500	3,353	147
Other	125,400	125,800	8,807	116,993
Capital Outlay	208,000	237,000	1,781,794	(1,544,794)
Debt Service:				
Lease Principal	759,704	759,704	1,024,916	(265,212)
Lease Interest	275,418	275,418	171,427	103,991
Refinancing Costs			<u>92,054</u>	<u>(92,054)</u>
TOTAL EXPENDITURES	<u>\$ 5,144,232</u>	<u>\$ 5,236,132</u>	<u>\$ 6,930,803</u>	<u>\$ (1,694,671)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 440,189</u>	<u>\$ 348,289</u>	<u>\$ 413,404</u>	<u>\$ 65,115</u>
OTHER FINANCING SOURCES (USES)				
Capital Lease Financing	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,311,407</u>	<u>\$ 1,311,407</u>
NET CHANGE IN FUND BALANCE	<u>\$ 440,189</u>	<u>\$ 348,289</u>	<u>\$ 1,724,811</u>	<u>\$ 1,376,522</u>
FUND BALANCE – OCTOBER 1, 2011	<u>1,239,385</u>	<u>1,239,385</u>	<u>1,239,385</u>	
FUND BALANCE – SEPTEMBER 30, 2012	<u>\$ 1,679,574</u>	<u>\$ 1,587,674</u>	<u>\$ 2,964,196</u>	<u>\$ 1,376,522</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
SCHEDULE OF FUNDING PROGRESS – PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability as a Percent of Covered Payroll</u>
12/31/10	\$ 69,037	\$ 74,197	\$ 5,160	93.05%	\$ 262,522	0.41%
12/31/11	\$ 244,886	\$ 302,896	\$ 58,010	80.85%	\$ 1,604,061	3.62%

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8

OTHER SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2012

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
SCHEDULE OF INSURANCE AND BONDING COVERAGE
SEPTEMBER 30, 2012**

Type of Coverage	From To	Amount of Coverage	Insurer/Name
PUBLIC OFFICIAL BOND Rodney Otto, Treasurer	04/08/12 04/08/13	\$ 100,000	Harford Casualty Insurance Company
BLANKET EMPLOYEE DISHONESTY BOND Blanket Bond Specific Excess on Treasurer	10/01/11 10/01/12	\$ 100,000 300,000	American Alternative Insurance Corporation
GENERAL LIABILITY	10/01/11 10/01/12	\$ 1,000,000	Texas Municipal League Intergovernmental Risk Pool
GENERAL LIABILITY General Aggregate Products/Completed Operations Personal and Advertising Injury Per Occurrence Medical Expense (any one person)	10/01/11 10/01/12	\$ 3,000,000 3,000,000 1,000,000 1,000,000 5,000	American Alternative Insurance Corporation
UMBRELLA LIABILITY General Aggregate Each Occurrence	10/01/11 10/01/12	\$ 2,000,000 1,000,000	American Alternative Insurance Corporation
ERRORS AND OMISSIONS	10/01/11 10/01/12	\$ 1,000,000	Texas Municipal League Intergovernmental Risk Pool
MANAGEMENT LIABILITY General Aggregate Each Occurrence	10/01/11 10/01/12	\$ 3,000,000 1,000,000	American Alternative Insurance Corporation
AUTOMOBILE LIABILITY	10/01/11 10/01/12	\$ 500,000	Texas Municipal League Intergovernmental Risk Pool
COMMERCIAL AUTO Liability-Combined Single Limit Physical Damage	10/01/11 10/01/12	\$ 1,000,000 Agreed Value	American Alternative Insurance Corporation

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
SCHEDULE OF INSURANCE AND BONDING COVERAGE
SEPTEMBER 30, 2012

Type of Coverage	From To	Amount of Coverage	Insurer/Name
PORTABLE EQUIPMENT Deductible	10/01/11 10/01/12	Blanket Replacement Cost \$ 1,000	American Alternative Insurance Corporation
PROPERTY Buildings Personal Property Money and Securities Software Deductible	10/01/11 10/01/12	\$ 3,782,127 449,973 10,000 250,000 500	American Alternative Insurance Corporation
ACCIDENT AND SICKNESS Accidental Death and Dismemberment Medical Disability	10/01/11 10/01/12	\$ 100,000 50,000 1,000	National Union Fire Insurance Company
WORKERS COMPENSATION	10/01/11 10/01/12	Statutory Limit	Texas Municipal League Intergovernmental Risk Pool

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TAXES RECEIVABLE – OCTOBER 1, 2011	\$ 96,436	
Adjustments to Beginning Balance	<u>8,201</u>	\$ 104,637
Original 2011 Tax Levy	\$ 3,566,822	
Adjustments to 2011 Tax Levy	<u>(6,040)</u>	<u>3,560,782</u>
TOTAL TO BE ACCOUNTED FOR		\$ 3,665,419
 TAX COLLECTIONS:		
Prior Years	\$ 41,704	
Current Year	<u>3,533,368</u>	<u>3,575,072</u>
 TAXES RECEIVABLE – SEPTEMBER 30, 2012		 <u>\$ 90,347</u>
 TAXES RECEIVABLE BY YEAR:		
2011		\$ 27,414
2010		19,176
2009		12,025
2008		9,079
2007		6,534
2006		3,526
2005		3,686
2004		2,629
2003		1,616
2002		1,330
2001		545
2000		647
1999		561
1998		453
1997		192
1996 and prior		<u>934</u>
TOTAL TAXES RECEIVABLE BY YEAR		<u>\$ 90,347</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
PROPERTY VALUATIONS	<u>\$3,560,721,889</u>	<u>\$3,474,037,881</u>	<u>\$3,411,965,089</u>	<u>\$3,073,480,351</u>
TAX RATE PER \$100 VALUATION	<u>\$ 0.1000</u>	<u>\$ 0.1000</u>	<u>\$ 0.0762</u>	<u>\$ 0.0722</u>
ADJUSTED TAX LEVY*	<u>\$ 3,560,782</u>	<u>\$ 3,474,039</u>	<u>\$ 2,611,365</u>	<u>\$ 2,243,456</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.23%</u>	<u>99.45%</u>	<u>99.54%</u>	<u>99.60%</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. 8
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – FIVE YEARS

	Amount		
	2012	2011	2010
REVENUES			
Property Taxes	\$ 3,575,072	\$ 3,458,784	\$ 2,590,378
Penalty and Interest	33,138	23,310	23,866
Investment Revenues	4,667	7,512	16,204
Sales Tax Receipts	3,654,428		
Grant Revenues	8,751	176,579	74,987
Property De-Annexation Revenue			115,721
Sale of Assets	36,248		74,000
Miscellaneous Revenues	<u>31,903</u>	<u>47,625</u>	<u>41,540</u>
TOTAL REVENUES	<u>\$ 7,344,207</u>	<u>\$ 3,713,810</u>	<u>\$ 2,936,696</u>
EXPENDITURES/EXPENSES			
District Services:			
Contracted Provider	\$	\$	\$
Department Administration	298,352	298,382	263,639
Department Operations	503,937	243,959	170,294
Salaries and Benefits	2,905,618	1,727,950	1,406,870
Accounting and Auditing	38,303	44,656	46,953
Appraisal District Fees	30,820	25,906	19,296
Commissioner Fees	5,450	6,000	6,750
Legal Fees-General	50,464	12,919	27,561
Legal Fees-Delinquent Tax Collections	9,508		
Sales Tax Consultant	6,000		
Tax Assessor/Collector Fees	3,353	3,341	2,572
Other	8,807	78,988	53,040
Capital Outlay	1,781,794	821,515	5,448,118
Debt Service:			
Principal	1,024,916	713,207	352,842
Interest	171,427	347,685	218,771
Refinancing Costs	<u>92,054</u>		
TOTAL EXPENDITURES/EXPENSES	<u>\$ 6,930,803</u>	<u>\$ 4,324,508</u>	<u>\$ 8,016,706</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 413,404</u>	<u>\$ (610,698)</u>	<u>\$ (5,080,010)</u>
OTHER FINANCING SOURCES (USES)			
Note Proceeds		\$ 261,944	\$
Capital Lease Proceeds	<u>1,311,407</u>		<u>2,264,263</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 1,311,407</u>	<u>\$ 261,944</u>	<u>\$ 2,264,263</u>
NET CHANGE IN FUND BALANCE	\$ 1,724,811	\$ (348,754)	\$ (2,815,747)
BEGINNING FUND BALANCE	<u>1,239,385</u>	<u>1,588,139</u>	<u>4,403,886</u>
ENDING FUND BALANCE	<u>\$ 2,964,196</u>	<u>\$ 1,239,385</u>	<u>\$ 1,588,139</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue					
2009	2008	2012	2011	2010	2009	2008	
\$ 2,217,273	\$ 1,837,875	48.6%	93.1%	88.2%	94.7%	94.5%	
21,167	18,254	0.5	0.6	0.8	0.9	0.9	
44,226	89,079	0.1	0.2	0.6	1.9	4.6	
		49.8					
37,944		0.1	4.8	2.6	1.6		
				3.9			
		0.5		2.5			
21,190		0.4	1.3	1.4	0.9		
<u>\$ 2,341,800</u>	<u>\$ 1,945,208</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	
\$ 507,257	\$ 1,003,648	%	%	%	21.7%	51.6%	
		4.1	8.0	9.0			
310,906		6.9	6.6	5.8	13.3		
528,150	16,223	39.6	46.5	47.9	22.6	0.8	
32,243	10,898	0.5	1.2	1.6	1.4	0.6	
18,384	15,892	0.4	0.7	0.7	0.8	0.8	
6,550	8,150	0.1	0.2	0.2	0.3	0.4	
19,429	16,887	0.7	0.3	0.9	0.8	0.9	
		0.1					
2,731	2,331		0.1	0.1	0.1	0.1	
86,672	63,310	0.1	2.1	1.8	3.7	3.3	
265,543	1,569,687	24.3	22.1	185.5	11.3	80.7	
292,207	126,890	14.0	19.2	12.0	12.5	6.5	
187,449	188,321	2.3	9.4	7.4	8.0	9.7	
		1.3					
<u>\$ 2,257,521</u>	<u>\$ 3,022,237</u>	<u>94.4%</u>	<u>116.4%</u>	<u>272.9%</u>	<u>96.5%</u>	<u>155.4%</u>	
\$ 84,279	\$ (1,077,029)	<u>5.6%</u>	<u>(16.4)%</u>	<u>(172.9)%</u>	<u>3.5%</u>	<u>(55.4)%</u>	
\$ 720,000	\$ 3,000,000						
70,000							
<u>\$ 790,000</u>	<u>\$ 3,000,000</u>						
\$ 874,279	\$ 1,922,971						
3,529,607	1,606,636						
<u>\$ 4,403,886</u>	<u>\$ 3,529,607</u>						

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
BOARD OF COMMISSIONERS AND CONSULTANTS
SEPTEMBER 30, 2012

District Mailing Address - Montgomery County Emergency Services District No. 8
335 Volunteer Lane
Spring, TX 77380-3527

District Telephone Number - (281) 292-6677

<u>Commissioners</u>	<u>Term of Office Appointed Expires</u>	<u>Fees of Office for the year ended September 30, 2012</u>	<u>Expense Reimbursements for the year ended September 30, 2012</u>	<u>Title</u>
James L. Kelly	01/01/12 12/31/13	\$ 3,000	\$ 440	President
George Biernesser	01/01/11 12/31/12	\$ -0-	\$ -0-	Vice President
John Rodriquez	01/01/11 12/31/12	\$ -0-	\$ -0-	Secretary
Rodney Otto	01/01/12 12/31/13	\$ 2,450	\$ 138	Treasurer/ Investment Officer
Andy Walters	01/01/12 12/31/13	\$ -0-	\$ -0-	Assistant Treasurer

The limit of fees of office that a Commissioner may receive during a year is \$3,000 as set by the Health and Safety Code-Chapter 775. Fees of office and expense reimbursements are the amounts actually paid to a Commissioner during the District's current fiscal year.

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
BOARD OF COMMISSIONERS AND CONSULTANTS
SEPTEMBER 30, 2012

Consultants:	Fees for the year ended <u>September 30, 2012</u>	<u>Title</u>
Coveler & Katz, P.C. 820 Gessner, Suite 1710 Houston, TX 77024	\$ 45,847	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	\$ 9,500	Auditor
Municipal Accounts & Consulting, Inc. 2507 N. Frazier, Suite 300 Conroe, TX 77301	\$ 31,018	Bookkeeper
Montgomery County Appraisal District P.O. Box 2233 Conroe, TX 77305	\$ 30,820	Central Appraisal District
J. R. Moore, Jr. Montgomery County Tax Assessor/Collector 400 N. San Jacinto Conroe, TX 77301	\$ 3,353	Tax Assessor/ Collector
Tax Revenue Consultants, LLC P.O. Box 152229 Austin, TX 78715	\$ 6,000	Sales Tax Consultant

See accompanying independent auditor's report.