

ANNUAL FINANCIAL REPORT

of the

Montgomery County Emergency Services District No. 8

For the Year Ended

September 30, 2013



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Montgomery County Emergency Services District No. 8

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Independent Auditor's Report

To the Board of Commissioners of the
Montgomery County Emergency Services District No. 8:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Montgomery County Emergency Services District No. 8 (the "District") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the major fund of the District as of September 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and and the budgetary comparison information 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 consider it to be an essential part of financial reporting for placing the basic financial statement 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.



BrooksCardiel, PLLC
The Woodlands, Texas
April 8, 2014

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2013

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. 8 (the "District") for the year ended September 30, 2013. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

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

Government-Wide Statements

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

The Statement of Net Position 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 property tax base 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.

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

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.

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.

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

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 RSI. The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund and the schedule of funding progress for the District's pension plan. The RSI can be found after the notes to the financial statements within this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. For the District, assets exceed liabilities by \$10,072,974 as of year end. Unrestricted net position, \$5,876,549 may be used to meet the District's ongoing emergency service operations.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	2013	2012
Current and other assets	\$ 6,389,030	\$ 3,656,643
Capital assets, net	12,249,935	9,578,856
Total Assets	18,638,965	13,235,499
Current liabilities	512,481	948,711
Long-term liabilities	8,053,510	5,535,274
Total Liabilities	8,565,991	6,483,985
Net position:		
Invested in capital assets, net of related debt	4,196,425	3,369,698
Unrestricted	5,876,549	3,381,816
Total Net Position	\$ 10,072,974	\$ 6,751,514

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

During the current year the District's total assets increased by \$5,403,466 compared to prior year while the District's liabilities increased by \$2,082,006. The District saw an increase in assets because it financed the construction of a new fire station. The District's liabilities did not increase at the same rate because the District saw an increase in revenues and paid some existing debt off early.

Statement of Activities:

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

	Governmental Activities	
	2013	2012
Revenues		
Property taxes	3,659,945	3,568,983
Sales taxes	5,057,461	4,063,669
Investment income	8,561	4,667
Other revenues	615,843	107,693
Total Revenues	9,341,810	7,745,012
Expenses		
Public safety	5,788,358	4,801,059
Interest and fiscal charges	231,992	320,226
Change in Net Position	3,321,460	2,623,727
Beginning Net Position	6,751,514	4,127,787
Ending Net Position	\$ 10,072,974	\$ 6,751,514

The District reported an increase in net position of \$3,321,460. This is due to an increase in sales tax of \$993,792 and the gain from a sale of land of \$538,403. Sales tax increased significantly due to increased development within the District.

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 unreserved fund

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

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 \$5,848,776. There was an increase in the fund balance of \$2,475,339 compared to the prior year. This increase can be primarily attributed to the increase in sales taxes, the issuance of debt, and the sale of capital assets.

CAPITAL ASSETS

As of the end of the year, the District had invested \$12,249,935 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles and equipment. The District's total investment in capital assets increased by \$2,671,079 due to the District's construction of a new station.

Major capital asset events during the current year include the following:

- The completion of Station No. 4 for \$3,396,713.
- The District sold land amounting to proceeds of \$971,952 and a profit of \$538,403.
- The purchase of a Chevy Tahoe for \$69,398.
- The purchase of land for \$50,916.

More detailed information about the District's capital assets is presented in Note 6 to the financial statements.

LONG-TERM DEBT

At the end of the current year, the District had total debt of \$8,053,510. During the year, the District had a net increase in the long-term debt of \$1,800,589. During the current year the District issued notes payable in the amount of \$3,325,000 to finance the construction of a fire station. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than final budgeted revenues by \$1,527,451 during the year. This can be attributed to the significant increase in sales taxes. General fund expenditures were over budget by \$3,354,104 because total construction costs were not included in the District's budget.

Montgomery County Emergency Services District No. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be directed to Montgomery County Emergency Services District No. 8, c/o Coveler & Katz, P.C., 820 Gessner, Suite 1710, Houston, TX 77024.

FINANCIAL STATEMENTS

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Montgomery County Emergency Services District No. 8

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2013

	General Fund	Adjustments	Statement of Net Position
<u>Assets</u>			
Cash	\$ 2,570,344	\$ -	\$ 2,570,344
Investments	2,785,000	-	2,785,000
Receivables	978,186	-	978,186
Prepaid insurance	55,500	-	55,500
Capital assets, net	-	12,249,935	12,249,935
Total Assets	\$ 6,389,030	\$ 12,249,935	\$ 18,638,965
<u>Liabilities</u>			
Accounts payable	\$ 316,511	\$ -	\$ 316,511
Accrued expenses	121,418	-	121,418
Accrued interest payable	-	74,552	74,552
Current portion of long-term debt	-	861,617	861,617
Non-current portion of long-term debt	-	7,191,893	7,191,893
Total Liabilities	437,929	8,128,062	8,565,991
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - property taxes	102,325	(102,325)	-
<u>Fund balance / Net Position</u>			
Fund Balance:			
Nonspendable:			
Prepaid costs	55,500	(55,500)	-
Unassigned	5,793,276	(5,793,276)	-
Total Fund Balance	5,848,776	(5,848,776)	-
Total Liabilities, Deferred Inflows, and Fund Balance	\$ 6,389,030		
Net Position:			
Invested in capital assets, net of related debt		4,196,425	4,196,425
Unrestricted		5,876,549	5,876,549
Total Net Position		\$ 10,072,974	\$ 10,072,974

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 8

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2013

Fund Balance - - Total Governmental Funds	\$	5,848,776
 Adjustments for 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		1,688,302
Capital assets - net depreciable		10,561,633
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property taxes receivable		102,325
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(74,552)
Non-current liabilities due in one year		(861,617)
Non-current liabilities due in more than one year		(7,191,893)
Net Position of Governmental Activities	\$	<u>10,072,974</u>

See Notes to Financial Statements.

Montgomery County Emergency Services District No. 8

STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE For the Year Ended September 30, 2013

	General Fund	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 3,681,215	\$ (21,270)	\$ 3,659,945
Sales taxes	5,057,461	-	5,057,461
Investment income	8,561	-	8,561
Other revenues	77,440	-	77,440
Total Revenues	<u>8,824,677</u>	<u>(21,270)</u>	<u>8,803,407</u>
Expenditures / Expenses			
Service Operations:			
District Services:			
Department administration	387,950	-	387,950
Department operations	638,404	-	638,404
Salaries and benefits	3,672,277	-	3,672,277
Accounting and auditing fees	42,175	-	42,175
Appraisal district fees	26,480	-	26,480
Commissioner fees	5,100	-	5,100
Legal fees - general	19,112	-	19,112
Sales tax consultant	30,092	-	30,092
Tax assessor/collector fees	3,709	-	3,709
Depreciation	-	963,059	963,059
Capital outlay	4,067,687	(4,067,687)	-
Debt service			
Principal	1,524,411	(1,524,411)	-
Interest and fiscal charges	228,893	3,099	231,992
Total Expenditures / Expenses	<u>10,646,290</u>	<u>(5,588,999)</u>	<u>6,020,350</u>
Other Financing Sources			
Lease proceeds	3,325,000	(3,325,000)	-
Sale of capital assets	971,952	(433,549)	538,403
Total Other Financing Sources	<u>4,296,952</u>	<u>(3,758,549)</u>	<u>538,403</u>
Net Change in Fund Balance	2,475,339	(2,475,339)	-
Change in Net Position		-	3,321,460
Beginning Fund Balance / Net Position	<u>3,373,437</u>	<u>3,378,077</u>	<u>6,751,514</u>
Ending Fund Balance / Net Position	<u>\$ 5,848,776</u>	<u>\$ 4,224,198</u>	<u>\$ 10,072,974</u>

See Notes to Financial Statements.

Montgomery County

Emergency Services District No. 8

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

For the Year Ended September 30, 2013

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

Net change in fund balance	\$	2,475,339
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays was more than depreciation in the current period.

Capital outlays		4,067,687
Depreciation		(963,059)
Sale of capital assets		(433,549)

Revenue in the Statement of Activities that does not provide current financial resources are not reported as revenue in the funds.		(21,270)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued interest		(3,099)

The issuance of long-term debt (e.g., capital leases, notes payable, certificates of obligation) provides 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments		1,524,411
Notes issued		(3,325,000)

	\$	3,321,460
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See Notes to Financial Statements.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

NOTE 1 – CREATION OF DISTRICT

The Montgomery County Emergency Services District No. 8 (the “District”) operates under Chapter 775 of V.T.C.A, Health and Safety Code. The District was converted from a rural fire prevention district in 1997 to provide fire protection within its boundaries.

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 set the policies of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and accounting policies of the District are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District’s significant accounting policies are described below.

A. Reporting Entity

The District has adopted Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. In accordance with this statement, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but 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. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Some of the significant requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District’s activities.
- A change in the fund financial statements to focus on the major funds.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Position and a Statement of Activities. It requires the classification of net position 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 position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – This component of net position consists of constraints placed on net position use through external constraints 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** – This component of net position consists of net position that that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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 taxes and intergovernmental revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues of each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed. The District maintains one fund which is the general fund.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

General Fund

The general fund is used to account for all the operations of the District's operations. 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.

Measurement Focus and Basis of Accounting

The government-wide Statement of Net Position and Statement of Activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The District utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes and interest associated with the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The Statement of Net Position and Statement of Activities are presented on the accrual basis of accounting. Under this method of accounting, revenues are

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which they are incurred.

C. Budget

An unappropriated budget is adopted for the general fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

D. 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 and proprietary 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 – net position to have been depleted before unrestricted – net position is applied.

E. 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.

F. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The 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

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

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 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.

G. 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

H. Capital Assets

Capital assets, which include property, equipment, and vehicle assets (e.g., fire trucks, building, fire apparatus, etc.), 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 one year. 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 the construction of governmental 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.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	20-40 years
Building improvements	5 to 40 years
Vehicles	5 to 15 years

NOTE 3 – CASH AND INVESTMENTS

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 cost. 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, such as TexPool, are reported using the pools’ share price.

Investment Policies

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, 2013, checking deposits were entirely insured by FDIC coverage.

The District invests in TexPool and in various certificates of deposits. At year end, the fair value of TexPool investments was \$1,934,507. TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts, for review.

TexPool operates in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of their shares.

Investments with a maturity date of 90 days or less are classified as cash. Investments with a maturity date greater than 90 days are considered investments. As of September 30, 2013, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 1,934,507	0.00
Total Investments Classified as Cash	\$ 1,934,507	

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposit	\$ 2,785,000	0.26
Total Investments	\$ 2,785,000	

NOTE 4 – PROPERTY TAXES

All property values are determined by the Montgomery County Appraisal District. A tax lien attaches to properties within the District on January 1 of each year when property valuations for the use in levying taxes are established. Taxes are generally levied on October 1 and are payable on or before January 31. Penalties and interest are charged if taxes are not paid by the succeeding January 31.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

NOTE 5 – RECEIVABLES

The following comprises the receivable balance at year end:

Property Taxes	\$	102,325
Sales Taxes		868,130
Other		7,731
Total	\$	<u>978,186</u>

NOTE 6 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,482,883	\$ 76,669	\$ (433,549)	\$ 1,126,003
Construction in progress	123,015	3,991,018	(3,551,734)	562,299
Total capital assets not being depreciated	<u>1,605,898</u>	<u>4,067,687</u>	<u>(3,985,283)</u>	<u>1,688,302</u>
Capital assets, being depreciated:				
Buildings and improvements	4,440,628	-	3,152,953	7,593,581
Vehicles and equipment	5,899,759	-	398,781	6,298,540
Total capital assets being depreciated	<u>10,340,387</u>	<u>-</u>	<u>3,551,734</u>	<u>13,892,121</u>
Less accumulated depreciation				
Buildings and improvements	(403,027)	(192,792)	-	(595,819)
Vehicles and equipment	(1,964,402)	(770,267)	-	(2,734,669)
Total accumulated depreciation	<u>(2,367,429)</u>	<u>(963,059)</u>	<u>-</u>	<u>(3,330,488)</u>
Net capital assets being depreciated	<u>7,972,958</u>	<u>(963,059)</u>	<u>3,551,734</u>	<u>10,561,633</u>
Total capital assets	<u>\$ 9,578,856</u>	<u>\$ 3,104,628</u>	<u>\$ (433,549)</u>	<u>\$ 12,249,935</u>

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

NOTE 7 – LONG-TERM DEBT AND DEBT SERVICE REQUIREMENTS

A summary of changes in long-term debt for the year ended is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Capital leases:					
2010 Chevy Tahoe	\$ 22,676	\$ -	\$ (22,676)	\$ -	\$ -
2010 Fire Trucks	1,748,731	-	(210,214)	1,538,517	219,395
2010 Freightliner Pumper & 2500 HD	183,623	-	(183,623)	-	-
2012 Ferrara Truck	1,067,796	-	(103,288)	964,508	105,952
2012 Ferrara Fire & Pierce Fire Trucks	630,095	-	(630,095)	-	-
Notes payable:					
2011 Birnham Woods	2,600,000	-	(229,937)	2,370,063	236,306
2012 Notes payable	-	3,325,000	(144,578)	3,180,422	299,964
Total Governmental Activities	<u>\$ 6,230,245</u>	<u>\$ 3,325,000</u>	<u>\$ (1,524,411)</u>	<u>\$ 8,053,510</u>	<u>\$ 861,617</u>
				<u>\$ 7,191,893</u>	
					Long-term liabilities due in more than one year

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, 2013. Accumulated depreciation through September 30, 2013, was \$61,861. This lease was paid in full during the current year.

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, 2013. Accumulated depreciation through September 30, 2013, was \$894,247.

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

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

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, 2013. Accumulated depreciation through September 30, 2013, was \$158,980. This lease was paid in full in the current year.

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, 2013. Accumulated depreciation through September 30, 2013, was \$203,691.

On February 2, 2012, the District entered into an equipment lease-purchase agreement with Leasing 2, Inc. to finance the acquisition of a Pierce 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, 2013. Accumulated depreciation through September 30, 2013, was \$203,691.

On December 30, 2011, the District issued a note payable to Trustmark Bank for the refinance of existing notes in the amount of \$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.

On November 15, 2012, the District issued a note payable to Capital One for the construction of a fire station. The amount of the note was \$3,325,000 with an interest rate of 2.54%. The District will make semi-annual payments of \$189,489 that began on June 1, 2013 and will end on December 1, 2022.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

As of September 30, 2013, the debt service requirements are as follows:

Year ending September 30,	Capital Leases		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$ 325,347	\$ 86,139	\$ 536,270	\$ 142,693
2015	337,662	73,824	550,300	128,664
2016	350,466	61,020	564,695	114,268
2017	363,778	44,708	579,347	99,617
2018	377,621	33,865	594,624	84,340
2019	392,016	19,470	610,180	68,784
2020	193,192	6,781	626,144	52,820
2021	126,621	2,849	642,482	36,481
2022	36,322	205	659,334	19,630
2023	-	-	187,109	2,380
	<u>\$ 2,503,025</u>	<u>\$ 328,861</u>	<u>\$ 5,550,485</u>	<u>\$ 749,677</u>

NOTE 8 – 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.

NOTE 9 – PENSIONS

Plan Description

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 TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 655 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available 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 Commissioners' Court within the options available in Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contribution to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the Commissioners' Court 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.

Funding Policy

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

The District contributed using the actuarially determined rate of 4.05% for the months of the accounting year in 2012 and 9.05% for the months of the accounting year in 2013.

The Commissioners' Court adopted the rate of 7% as the contribution rate payable by the employee members for calendar year 2013. The Commissioners' Court may change the employee contribution rate and the employer contribution rate within the options available in the TCDRS Act.

Annual Pension Costs

The District's schedule of funding information can be found in the Required Supplemental Information section of this report.

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 parameters based on the actuarial valuations as of December 31, 2010, and December 31, 2011, the basis for determining the contribution rates for plan years 2012 and 2013.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	20 Years - Closed Period
Asset Valuation Method	10-yr smoothed value ESF: Fund value
Investment Rate of Return	8%
Projected Salary Increases	5.4%
Includes Inflation at	3.5%
Cost of Living Adjustments	None

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Req. Contribution (ARC)	\$ 236,978	\$ 260,190	\$ 147,890
Contributions made	\$ (236,978)	\$ (260,190)	\$ (147,890)
NPO at the End of the Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The funded status as of December 31, 2012, the most recent valuation date, is as follows:

	<u>2012</u>
Actuarial Value of Assets	535,981
Actuarial Accrued Liability	863,509
Percentage Funded	62%
Unfunded Actuarial Accrued Liability (UAAL)	327,528
Annual Covered Payroll	2,548,983
UAAL as a Percentage of Covered Payroll	12.85%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, 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.

Montgomery County Emergency Services District No. 8

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended September 30, 2013

NOTE 10 - RESTATEMENT

The District has restated beginning net position within governmental activities due the correction of an error. The restatement of beginning net position is as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>
Prior year ending fund balance / net position	\$ 2,964,196	\$ 6,350,348
Correction for sales tax receivable	409,241	409,241
Correction for long-term debt	-	(8,075)
Restated beginning balance / net position	<u>\$ 3,373,437</u>	<u>\$ 6,751,514</u>

NOTE 11 – SUBSEQUENT EVENTS

On March 28, 2014 the District issued a note payable to Wells Fargo for the construction and remodeling of a fire station. The amount of the note was \$9,137,434 with an interest rate of 2.28%.

REQUIRED SUPPLEMENTARY INFORMATION

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Montgomery County
Emergency Services District No. 8
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended September 30, 2013

	Original & Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 3,354,626	\$ 3,681,215	\$ 326,589
Sales taxes	3,900,000	5,057,461	1,157,461
Investment earnings	8,000	8,561	561
Other income	34,600	77,440	42,840
Total Revenues	<u>7,297,226</u>	<u>8,824,677</u>	<u>1,527,451</u>
Expenditures			
Service operations:			
District services:			
Department administration	280,319	387,950	(107,631)
Department operations	625,782	638,404	(12,622)
Salaries and benefits	4,350,438	3,672,277	678,161
Accounting and auditing fees	39,000	42,175	(3,175)
Appraisal district fees	26,760	26,480	280
Commissioner fees	9,000	5,100	3,900
Legal fees - general	40,000	19,112	20,888
Sales tax consultant	-	30,092	(30,092)
Tax assessor/collector fees	3,500	3,709	(209)
Other	100,000	-	100,000
Capital outlay	500,164	4,067,687	(3,567,523)
Debt service:			
Principal	1,097,646	1,524,411	(426,765)
Interest	219,577	228,893	(9,316)
Total Expenditures	<u>7,292,186</u>	<u>10,646,290</u>	<u>(3,354,104)</u>
Other Financing Sources			
Lease proceeds	-	3,325,000	3,325,000
Sale of capital assets	-	971,952	971,952
Total Other Financing Sources	-	4,296,952	4,296,952
Net Change in Fund Balance	<u>\$ 5,040</u>	2,475,339	<u>\$ 2,470,299</u>
Beginning Fund Balance		<u>3,373,437</u>	
Ending Fund Balance		<u>\$ 5,848,776</u>	

Notes to Required Supplementary Information:

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

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Montgomery County
Emergency Services District No. 8
SCHEDULE OF FUNDING PROGRESS - PENSION PLAN
For the Year Ended September 30, 2013

The District's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the District makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the District's Schedule of Funding Progress.

Actuarial Valuation Date	<u>12/31/12</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
Actuarial Value of Assets	\$ 535,981	\$ 244,886	\$ 69,037
Actuarial Accrued Liability	\$ 863,509	\$ 438,077	\$ 74,197
Percentage Funded	62.07%	55.90%	93.05%
Unfunded Actuarial			
Accrued Liability	\$ 327,528	\$ 193,191	\$ 5,160
Annual Covered Payroll	\$ 2,548,983	\$ 1,604,061	\$ 1,262,522
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	12.85%	12.04%	0.41%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 236,978	\$ 260,190	\$ 147,890
Contributions Made	\$ 236,978	\$ 260,190	\$ 147,890
NPO at End of Period	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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