

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

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2005

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3-7 |
| STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET | 8 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS | 9 |
| STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES | 10 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES | 11 |
| NOTES TO BASIC FINANCIAL STATEMENTS | 12-20 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND | 22 |
| OTHER SUPPLEMENTAL INFORMATION | |
| STATEMENT OF CASH FLOWS – GENERAL FUND | 24 |
| LISTING OF THE NUMBER OF EMERGENCY RESPONSES MADE WITHIN AND OUTSIDE THE DISTRICT | 25 |
| INSURANCE AND BONDING COVERAGE | 26 |
| STATEMENT OF ACTIVITIES – SOUTH MONTGOMERY COUNTY VOLUNTEER FIRE DEPARTMENT, INC. | 27 |
| TAXES LEVIED AND RECEIVABLE | 28-29 |
| BOARD OF COMMISSIONERS AND CONSULTANTS | 30-31 |

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

Independent Auditor's Report

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Montgomery County Emergency Services District No. 8 (the "District"), as of and for the year ended September 30, 2005, as listed in the preceding table of contents. These basic 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 basic financial statements, referred to above, present fairly, in all material respects, the financial position of the governmental activities and each major fund of District as of September 30, 2005, 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.

The Management's Discussion and Analysis on pages 3 to 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 22 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Montgomery County Emergency
Services District No. 8

January 4, 2006

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. Other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information, excluding that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McCall, Gibson & Company, PLLC

McCall, Gibson & Company, PLLC
Certified Public Accountants

January 4, 2006

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2005**

Our 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, 2005. 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) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined 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 Balances. This report also includes other supplemental information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the governmental-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.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2005**

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 and general expenditures.

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustment column, 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 the Fund Balances 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 to 20 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.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2005**

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 \$397,503 as of September 30, 2005.

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

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

| | <u>Summary of Changes in the Statement of Net Assets</u> | | |
|---|--|-------------------|---|
| | <u>2005</u> | <u>2004</u> | <u>Change Positive (Negative)</u> |
| Current and Other Assets | \$ 360,923 | \$ 144,713 | \$ 216,210 |
| Capital Assets (Net of Accumulated Depreciation) | <u>38,710</u> | <u> </u> | <u>38,710</u> |
| Total Assets | <u>\$ 399,633</u> | <u>\$ 144,713</u> | <u>\$ 254,920</u> |
| Accounts Payable | <u>\$ 2,130</u> | <u>\$ 795</u> | <u>\$ (1,335)</u> |
| Total Liabilities | <u>\$ 2,130</u> | <u>\$ 795</u> | <u>\$ (1,335)</u> |
| Net Assets: | | | |
| Invested in Capital Assets | \$ 38,710 | \$ | \$ 38,710 |
| Unrestricted | <u>358,793</u> | <u>143,918</u> | <u>214,875</u> |
| Total Net Assets | <u>\$ 397,503</u> | <u>\$ 143,918</u> | <u>\$ 253,585</u> |

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2005**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the year ended September 30, 2005. The District increased its net assets by \$253,585, accounting for a 176.2% growth in net assets.

| | Summary of Changes in the Statement of Activities | | |
|-------------------------------|---|-------------------|----------------------------------|
| | 2005 | 2004 | Change Positive (Negative) |
| Revenues: | | | |
| Property Taxes | \$ 1,076,132 | \$ 725,509 | \$ 350,623 |
| Other Revenues | <u>14,256</u> | <u>10,737</u> | <u>3,519</u> |
| Total Revenues | \$ 1,090,388 | \$ 736,246 | \$ 354,142 |
| | | | |
| Expenses for Services | <u>836,803</u> | <u>730,015</u> | <u>(106,788)</u> |
| | | | |
| Change in Net Assets | \$ 253,585 | \$ 6,231 | \$ 247,354 |
| | | | |
| Net Assets, Beginning of Year | <u>143,918</u> | <u>137,687</u> | <u>6,231</u> |
| Net Assets, End of Year | <u>\$ 397,503</u> | <u>\$ 143,918</u> | <u>\$ 253,585</u> |

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's fund balance as of the end of the fiscal year ended September 30, 2005 was \$309,860, an increase of \$210,730 from the prior year. This increase was primarily due to an increase in property tax collections.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the fiscal year to revise the format of the budget. The District had a total negative variance for the year of \$20,895. The total negative variance was caused by one event: the District purchased a vehicle and equipment for that vehicle and did not include this purchase in the budget.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2005**

CAPITAL ASSETS

The District's investment in capital assets as of September 30, 2005 amounts to \$38,710 (net of accumulated depreciation). This investment in capital assets includes vehicles and equipment.

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

- Purchase of 2005 Ford Excursion

| <u>Capital Assets At Year-End Net of Accumulated Depreciation</u> | |
|---|------------------|
| Vehicles and Equipment | <u>\$ 38,710</u> |
| Total Net Capital Assets | <u>\$ 38,710</u> |

Additional information on the District's capital assets can be found in Note 6 on page 19 of this report.

LONG-TERM DEBT ACTIVITY

The District did not have any long-term debt activity during the current fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Montgomery County Emergency Services District No. 8's finances for anyone with an interest in the government'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, 2005

| | General Fund | Adjustments | Statement of Net Assets |
|---|-------------------|---------------------|----------------------------|
| ASSETS | | | |
| Cash in Bank, Note 4 | \$ 305,505 | \$ | \$ 305,505 |
| Cash with Montgomery County | 579 | | 579 |
| Property Taxes Receivable | 48,933 | | 48,933 |
| Prepaid Legal Fees | 3,676 | | 3,676 |
| Prepaid Land Costs | 2,230 | | 2,230 |
| Capital Assets)Net of Accumulated Depreciation), Note 6 | | 38,710 | 38,710 |
| TOTAL ASSETS | \$ 360,923 | \$ 38,710 | \$ 399,633 |
| LIABILITIES | | | |
| Accounts Payable | \$ 2,130 | \$ | \$ 2,130 |
| Deferred Tax Revenue | 48,933 | (48,933) | |
| TOTAL LIABILITIES | \$ 51,063 | \$ (48,933) | \$ 2,130 |
| FUND BALANCE/NET ASSETS | | | |
| FUND BALANCE | | | |
| Reserved for Prepaid Costs | \$ 5,906 | \$ (5,906) | \$ |
| Undesignated-Unreserved | 303,954 | (303,954) | |
| TOTAL FUND BALANCE | \$ 309,860 | \$ (309,860) | \$ -0- |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 360,923 | | |
| NET ASSETS | | | |
| Invested in Capital Assets | | \$ 38,710 | \$ 38,710 |
| Unrestricted | | 358,793 | 358,793 |
| TOTAL NET ASSETS | | \$ 397,503 | \$ 397,503 |

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, 2005**

| | |
|--|-------------------|
| Total Fund Balances - Governmental Funds | \$ 309,860 |
| Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$41,319 and the accumulated depreciation is \$2,609. | 38,710 |
| Deferred tax revenues for the 2004 and prior tax levies became part of recognized revenues in the governmental activities of the District. | <u>48,933</u> |
| Total Net Assets – Governmental Activities | <u>\$ 397,503</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 BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | Adjustments | Statement of Activities |
|---|---------------------|--------------------|----------------------------|
| REVENUES | | | |
| Property Taxes | \$ 1,071,987 | \$ 4,145 | \$ 1,076,132 |
| Penalties and Interest | 11,022 | | 11,022 |
| Investment Revenues | 2,684 | | 2,684 |
| Miscellaneous Revenues | <u>550</u> | <u> </u> | <u>550</u> |
| TOTAL REVENUES | <u>\$ 1,086,243</u> | <u>\$ 4,145</u> | <u>\$ 1,090,388</u> |
| EXPENDITURES/EXPENSES | | | |
| Service Operations: | | | |
| District Services – South Montgomery County Volunteer Fire Department, Inc. | \$ 790,000 | \$ | \$ 790,000 |
| Accounting and Auditing Fees | 5,710 | | 5,710 |
| Appraisal District Fees | 8,708 | | 8,708 |
| Commissioner Fees | 8,100 | | 8,100 |
| Legal Fees | 9,439 | | 9,439 |
| Tax Collector Fees | 1,760 | | 1,760 |
| Depreciation, Note 6 | | 2,609 | 2,609 |
| Other | 10,477 | | 10,477 |
| Capital Outlay | <u>41,319</u> | <u>(41,319)</u> | <u> </u> |
| TOTAL EXPENDITURES/EXPENSES | <u>\$ 875,513</u> | <u>\$ (38,710)</u> | <u>\$ 836,803</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES | \$ 210,730 | \$ (210,730) | \$ |
| CHANGE IN NET ASSETS | | 253,585 | 253,585 |
| FUND BALANCES/NET ASSETS – OCTOBER 1, 2004 | <u>99,130</u> | <u>44,788</u> | <u>143,918</u> |
| FUND BALANCES/NET ASSETS – SEPTEMBER 30, 2005 | <u>\$ 309,860</u> | <u>\$ 87,643</u> | <u>\$ 397,503</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 BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

| | |
|---|-------------------|
| Net Change in Fund Balance-Total Governmental Funds | \$ 210,730 |
| 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. | 4,145 |
| 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. | (2,609) |
| Governmental funds report capital expenditures in the period purchased. However, in the Statement of Net Assets, capital assets are increased by new purchases and the Statement of Activities is not affected. | <u>41,319</u> |
| Change in Net Assets of Governmental Activities | <u>\$ 253,585</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, 2005

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.

Chapter 775 of the Health and Safety Code provides that an emergency services district may provide all or any one of the emergency services included in the code, including fire prevention and fire fighting, but is not required to perform all emergency services.

The District has entered into a contract with the South Montgomery County Volunteer Fire Department, Inc. to provide the services of fire suppression and extinguishment and certain emergency rescue services within the boundaries 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.

The Governmental Accounting Standards Board 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 Governmental Accounting Standards Board (GASB) Statement No. 34-Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

GASB Statement No. 34 established 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 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, 2005

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (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 Balances.

Governmental Funds

The District has one governmental fund and considers this fund to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, property tax revenues, costs 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 collectible within sixty (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, 2005

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include all amounts in checking accounts, money market accounts, savings accounts and cash with Montgomery County. All accounts are reflected at cost which the District considers to be fair value.

Capital Assets

Capital assets, which include land, buildings 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 Net Assets. 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.

Personal tangible assets are capitalized if they have an original cost of \$500 or more and a useful life of at least two (2) 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 (2) 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> |
|------------------------|--------------|
| Vehicles and Equipment | 5 |

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 to change the format of the budget.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service determined that directors are considered to be "employees" for federal payroll tax purposes only.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

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 are included on the Balance Sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

Unreserved:

Designated - To indicate fund equity for which the District has made tentative plans.

Undesignated - To indicate fund equity which is available for use in future periods.

Accounting Estimates

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

NOTE 3. TAX LEVY

During the year ended September 30, 2005, the District levied an ad valorem tax at the rate of \$.0722 per \$100 of assessed valuation, which resulted in a tax levy of \$1,065,700 on the adjusted taxable valuation of \$1,476,037,704 for the 2004 tax year.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 3. TAX LEVY (Continued)

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.

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 \$305,505 and the bank balance was \$375,955. Of the bank balance, \$100,000 was covered by federal depository insurance and the balance was covered by the pledge of securities held in safekeeping by a third-party institution in the District's name.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at September 30, 2005, as listed below:

| | |
|--|-------------------|
| GENERAL FUND | \$ <u>305,505</u> |
| TOTAL CASH SHOWN ON STATEMENT OF NET ASSETS | \$ <u>305,505</u> |

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

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 Directors.

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, (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.

As of September 30, 2005, the District had no investments.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 5. CONTRACT FOR PROVIDING FIRE EXTINGUISHMENT AND CERTAIN EMERGENCY RESCUE SERVICES

On August 17, 1998 the District entered into a contract with the South Montgomery County Volunteer Fire Department, Inc. (the "Department") whereby designating the Department as the District's agent for providing fire suppression and extinguishment and certain emergency services within the boundaries of the District. The District shall provide not less than ninety-five percent (95%) of the District's net fiscal year income to the Department. The frequency and amount of the individual payments are dependent on the availability of tax monies. The District has agreed to make payments in multiples of not less than one-twelfth of the estimated minimum annual contribution until such time as the actual minimum shall be reached. The District may make additional contributions to the Department in excess of the minimum annual contribution to the extent that the monies are available and as deemed appropriate in the prudent judgment of the Board of Commissioners. The term of the contract is from September 1, 1998 until such time as the agreement is terminated by either party giving ninety days written notice to the other party or automatically within six months after the District authorizes the creation of an additional fire department to operate within its boundaries.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005:

| | <u>October 1, 2004</u> | <u>Increases</u> | <u>September 30, 2005</u> |
|--|------------------------|-------------------|---------------------------|
| Capital Assets Not Being Depreciated | | | |
| Land and Land Improvements | \$ | \$ | \$ |
| Construction in Progress | | | |
| Total Capital Assets Not Being Depreciated | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| Capital Assets Subject to Depreciation | | | |
| Vehicles and Equipment | <u>\$ -0-</u> | <u>\$ 41,319</u> | <u>\$ 41,319</u> |
| Less Accumulated Depreciation | | | |
| Vehicles and Equipment | <u>\$ -0-</u> | <u>\$ (2,609)</u> | <u>\$ (2,609)</u> |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ -0-</u> | <u>\$ 38,710</u> | <u>\$ 38,710</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$ -0-</u> | <u>\$ 38,710</u> | <u>\$ 38,710</u> |

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 7. 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. The District carries a commercial bond for its Treasurer. The District participates in the Texas Municipal League Intergovernmental Risk Pool ("TML") to provide general, auto and errors and omissions liability 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 fiscal year ended September 30, 2005, the District contributed \$1,565 to the fund for this insurance coverage. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2005

REQUIRED SUPPLEMENTARY INFORMATION
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, 2005

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|--|------------------------------|---------------------|------------------------------------|
| REVENUES | | | |
| Property Taxes | \$ 1,065,000 | \$ 1,071,987 | \$ 6,987 |
| Penalties and Interest | | 11,022 | 11,022 |
| Investment Revenues | 1,500 | 2,684 | 1,184 |
| Miscellaneous Revenues | <u>400</u> | <u>550</u> | <u>150</u> |
| TOTAL REVENUES | <u>\$ 1,066,900</u> | <u>\$ 1,086,243</u> | <u>\$ 19,343</u> |
| EXPENDITURES | | | |
| Service Operations: | | | |
| District Services – South | | | |
| Montgomery County Volunteer | | | |
| Fire Department, Inc. | \$ 790,000 | \$ 790,000 | \$ |
| Accounting and Auditing Fees | 4,500 | 5,710 | (1,210) |
| Appraisal District Fees | 6,800 | 8,708 | (1,908) |
| Commissioner Fees | 15,000 | 8,100 | 6,900 |
| Legal Fees | 6,000 | 9,439 | (3,439) |
| Tax Collector Fees | | 1,760 | (1,760) |
| Other | 12,975 | 10,477 | 2,498 |
| Capital Outlay | | <u>41,319</u> | <u>(41,319)</u> |
| TOTAL EXPENDITURES | <u>\$ 835,275</u> | <u>\$ 875,513</u> | <u>\$ (40,238)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ 231,625</u> | <u>\$ 210,730</u> | <u>\$ (20,895)</u> |
| FUND BALANCE – OCTOBER 1, 2004 | <u>99,130</u> | <u>99,130</u> | <u> </u> |
| FUND BALANCE – SEPTEMBER 30, 2005 | <u>\$ 330,755</u> | <u>\$ 309,860</u> | <u>\$ (20,895)</u> |

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8

OTHER SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2005

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
STATEMENT OF CASH FLOWS – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | |
|---|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Tax Receipts (Including penalty and interest) collected by Montgomery County | \$ 1,083,508 |
| Receipt of Interest from Bank Investments | 2,684 |
| Cash Payments to South Montgomery Volunteer Fire Department | (790,000) |
| Cash Payments for Operating Activities | <u>(46,415)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 249,777</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of Capital Assets | <u>\$ (43,049)</u> |
| NET INCREASE (DECREASE) IN CASH | \$ 206,728 |
| CASH AND CASH EQUIVALENTS – OCTOBER 1, 2004 | <u>99,356</u> |
| CASH AND CASH EQUIVALENTS – SEPTEMBER 30, 2005 | <u>\$ 306,084</u> |
| RECONCILIATION OF EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES TO CASH PROVIDED BY OPERATING ACTIVITIES | |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 210,730 |
| Adjustments to reconcile excess (deficiency) of revenues over expenditures to net cash provided by operating activities: | |
| Decrease (Increase) in Property Taxes Receivable | (4,145) |
| Decrease (Increase) in Prepaid Costs | (5,337) |
| Increase (Decrease) in Accounts Payable | 1,335 |
| Increase (Decrease) in Deferred Tax Revenue | <u>4,145</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 206,728</u> |

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
LISTING OF THE NUMBER OF EMERGENCY
RESPONSES MADE WITHIN AND OUTSIDE THE DISTRICT
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(UNAUDITED)

| | |
|---|---------------------|
| Number of Emergency Responses made Within the District | 1,693 |
| Number of Emergency Responses made Outside the District | <u>146</u> |
| Total Emergency Responses | <u><u>1,839</u></u> |

See accompanying independent auditor's report.

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
INSURANCE AND BONDING COVERAGE
SEPTEMBER 30, 2005**

| <u>Type of Coverage</u> | <u>From To</u> | <u>Amount of Coverage</u> | <u>Insurer/Name</u> |
|--|----------------------|-------------------------------|--|
| PUBLIC OFFICIAL BOND Dennis Jones | 05/11/05 05/11/06 | \$ 70,000 | Harford Casualty Surety Company |
| GENERAL LIABILITY | 10/01/04 10/01/05 | \$ 1,000,000 | Texas Municipal League Intergovernmental Risk Pool |
| ERRORS AND OMISSIONS | 10/01/04 10/01/05 | \$ 1,000,000 | Texas Municipal League Intergovernmental Risk Pool |
| AUTOMOBILE Liability Physical Damage | 10/01/04 10/01/05 | \$ 500,000 Per Schedule | Texas Municipal League Intergovernmental Risk Pool |

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
STATEMENT OF ACTIVITIES
SOUTH MONTGOMERY COUNTY VOLUNTEER FIRE DEPARTMENT, INC.
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(UNAUDITED)

SUPPORT

| | |
|----------------------------|--------------|
| Grants (ESD #8) | \$ 719,800 |
| Donations and Fund-Raising | 500 |
| Miscellaneous Income | 2,004 |
| Interest Earned | 563 |
| Rental Income | <u>8,800</u> |

TOTAL SUPPORT

\$ 731,667

EXPENSES

| | |
|--------------------------|--------------|
| Construction in Progress | \$ 195 |
| Communications | 10,609 |
| Dues and Subscriptions | 1,925 |
| Fire Prevention | 4,196 |
| Fire/Rescue Equipment | 24,117 |
| Fuel | 9,645 |
| Insurance | 137,131 |
| Interest | 11,222 |
| Debt Reduction | 4,313 |
| Maintenance-Building | 5,905 |
| Maintenance-Equipment | 33,785 |
| Maintenance-Vehicles | 7,228 |
| Office Management | 416,771 |
| Payroll Expenses | 11,954 |
| Personnel | 12,571 |
| Professional Fees | 797 |
| Public Relations | 3,921 |
| Supplies | 10,821 |
| Telephone | 9,674 |
| Training | 19,277 |
| Utilities | <u>1,786</u> |

TOTAL EXPENSES

\$ 737,843

CHANGE IN NET ASSETS

\$ (6,176)

NET ASSETS – OCTOBER 1, 2004

1,040,848

NET ASSETS – SEPTEMBER 30, 2005

1,034,672

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | | |
|---------------------------------------|------------------|------------------|
| TAXES RECEIVABLE – OCTOBER 1, 2004 | \$ 44,788 | |
| Adjustments to Beginning Balance | <u>10,432</u> | \$ 55,220 |
| 2004 Tax Levy | | <u>1,065,700</u> |
| TOTAL TO BE ACCOUNTED FOR | | \$ 1,120,920 |
| TAX COLLECTIONS: | | |
| Prior Years | \$ 22,923 | |
| Current Year | <u>1,049,064</u> | <u>1,071,987</u> |
| TAXES RECEIVABLE – SEPTEMBER 30, 2005 | | <u>\$ 48,933</u> |
| TAXES RECEIVABLE BY YEAR: | | |
| 2004 | | \$ 16,636 |
| 2003 | | 5,949 |
| 2002 | | 9,053 |
| 2001 | | 3,196 |
| 2000 | | 3,502 |
| 1999 | | 3,319 |
| 1998 | | 2,047 |
| Prior Years | | <u>5,231</u> |
| TOTAL TAXES RECEIVABLE BY YEAR | | <u>\$ 48,933</u> |

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|------------------------|------------------------|------------------------|------------------------|
| PROPERTY VALUATIONS | <u>\$1,476,037,704</u> | <u>\$1,297,760,152</u> | <u>\$1,193,681,435</u> | <u>\$1,029,946,361</u> |
| TAX RATE PER \$100 VALUATION | <u>\$.0722</u> | <u>\$ 0.0562</u> | <u>\$ 0.0545</u> | <u>\$ 0.0646</u> |
| ADJUSTED TAX LEVY | <u>\$ 1,065,700</u> | <u>\$ 729,343</u> | <u>\$ 650,558</u> | <u>\$ 665,347</u> |
| PERCENT OF TAXES COLLECTED TO TAXES LEVIED | <u>98.43%</u> | <u>99.18%</u> | <u>98.60%</u> | <u>99.51%</u> |

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
BOARD OF COMMISSIONERS AND CONSULTANTS
SEPTEMBER 30, 2005

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

District Telephone Number - (281) 363-3473

| <u>Commissioners</u> | <u>Term of Office Appointed - Expires</u> | <u>Fees of Office for the year ended September 30, 2005</u> | <u>Title</u> |
|----------------------|---|---|---|
| James L. Kelly | 01/04 – 12/05 | \$ 750 | President |
| Dennis L. Jones | 01/04 – 12/05 | \$ 2,900 | Vice President/ Investment Officer/ Treasurer |
| Paul A. Cote | 01/05 – 12/06 | \$ 2,750 | Secretary |
| Rodney Otto | 08/05 – 12/05 | \$ 850 | Assistant Treasurer |

See accompanying independent auditor's report.

MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT NO. 8
BOARD OF COMMISSIONERS AND CONSULTANTS
SEPTEMBER 30, 2005

| Consultants: | <u>Fees for the year ended September 30, 2005</u> | <u>Title</u> |
|--|---|----------------------------------|
| Coveler & Katz, P.C. 820 Gessner, Suite 1710 Houston, TX 77024 | \$ 9,439 | Attorney |
| McCall, Gibson & Company, PLLC Certified Public Accountants 13831 Northwest Freeway, Suite 610 Houston, TX 77040-5216 | \$ 5,200 | Auditor |
| Mr. J. R. Moore, Jr. Montgomery County Tax Assessor/Collector 400 N. San Jacinto Conroe, TX 77301 | \$ 1,760 | Tax Assessor/ Collector |
| Montgomery County Appraisal District P.O. Box 2233 Conroe, TX 77305 | \$ 8,708 | Central Appraisal District |

See accompanying independent auditor's report.