

**MONTGOMERY COUNTY EMERGENCY  
SERVICES DISTRICT #10**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

**MONTGOMERY COUNTY EMERGENCY  
SERVICES DISTRICT #10  
Table of Contents  
December 31, 2011**

	<u>Page</u>
List of Officials	-
Management's Discussion and Analysis	1-4
Independent Auditors' Report	-
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets	5
Statement of Activities	6
Fund Financial Statements	
Balance Sheet - Governmental Funds	7
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	8
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds	10
Notes to the Financial Statements	11-23
Required Supplemental Information:	
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	24
Other Supplemental Information:	
Statement of Expenses - General Fund	25
Ad Valorem Tax Data	26

**MONTGOMERY COUNTY EMERGENCY  
SERVICES DISTRICT #10**

**BOARD OF COMMISSIONERS  
AND TERMS**

**Bob Buschardt, President  
January 2010 to December 2011**

**Glenn Gates, Vice President  
January 2010 to December 2011**

**Dwight Arnold, Treasurer  
January 2011 to December 2012**

**Andrew W. Brown, Secretary  
January 2011 to December 2012**

**Johnnie Bryant, Vice Treasurer/Vice Secretary  
January 2010 to December 2011**

**The mailing address for the District  
And Commissioners is:**

**P.O. Box 1343  
Magnolia, Texas 77353**

**MONTGOMERY COUNTY EMERGENCY  
SERVICES DISTRICT #10  
Management's Discussion and Analysis**

Our discussion and analysis of Montgomery County Emergency Services District #10's (the District) financial performance provides an overview of the District's financial activities for the year ended December 31, 2011. Please read this in conjunction with the District's financial statements, which begin on page 5.

**FINANCIAL HIGHLIGHTS**

The District's assets decreased by \$705,100. Long-term debt decreased by \$762,160. Net assets increased by \$112,311 during 2011.

During the year, the District had revenues that were \$741,070 less than the prior year. Total expenses were \$987,259 higher than in 2010. The increase in expenses was due to additional salary and equipment costs for the wildfires.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a long-term view of the District's finances. Fund financial statements are also presented. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

**Reporting the District as a Whole**

One of the most important questions asked about the District's finances is, "Is Montgomery County Emergency Services District #10 improved as a whole as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities 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 regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets-the difference between assets and liabilities-as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's property tax base and the firefighting services provided, to assess the overall health of the District.

## Reporting the District's Most Significant Funds

The fund financial statements begin on page 7 and provide detailed information about the most significant funds-not the District as a whole.

## Governmental Funds

All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities reported in the Statement of Net Assets and the Statement of Activities and governmental funds in a reconciliation at the bottom of the fund financial statements.

## THE DISTRICT AS A WHOLE

The District's total assets decreased by \$705,100 (3.71%). Long-term debt decreased by \$762,160 (11.59%). Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's governmental activities.

Table 1 - Net Assets  
Governmental Activities

	2010	2011
Current & Other Assets	\$ 9,057,805	\$ 7,452,940
Capital Assets	9,936,434	10,836,199
Total Assets	18,994,239	18,289,139
Long-Term Debt	6,573,605	5,811,445
Deferred Revenue	1,979,743	1,958,157
Other Liabilities	52,465	18,800
Total Liabilities	8,605,813	7,788,402
Net Assets:		
Invested in Capital		
Assets-Net of Debt	3,362,829	5,024,754
Assigned	3,313,095	1,388,423
Unassigned	3,712,502	4,087,560
Total Net Assets	\$ 10,388,426	\$ 10,500,737

Net assets of the District increased by 1.08%. (\$10,338,426 as compared to \$10,500,738). Unassigned net assets that can be used by the District for specific purposes that are not classified as nonspendable, restricted, or committed increased from \$3,712,502 at December 2010 to \$4,087,560 at the end of this year.

Table 2 - Changes in Net Assets  
Governmental Activities

	Governmental Activities	
	2010	2011
Revenues		
Ad valorem taxes and penalties	\$ 4,469,787	\$ 4,311,312
Annexation payment	663,383	-
Other	59,534	140,322
Total Revenues	5,192,704	4,451,634
Program Expenses		
General	3,352,064	4,339,323
Increase in Net Assets	\$ 1,840,640	\$ 112,311

### Governmental Activities

Revenues for the District's governmental activities decreased by 14.27% and total expenses increased 29.75%. The 2011 change in net assets was \$1,728,329 lower than in 2010.

### THE DISTRICT'S FUNDS

**Governmental Funds** - The purpose of the District's governmental fund financial statements 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the district completed the year, its governmental funds (as presented in the balance sheet on page 7) reported a combined fund balance of \$5,475,983. This is 22.06% lower than the prior year fund balance of \$7,025,597. Of the combined fund balance, \$1,388,423 is assigned and \$4,087,560 is unassigned, which include all residual amounts in governmental funds that are not classified as nonspendable, restricted, or committed.

### Governmental Fund Budgetary Highlights

Governmental fund revenues were \$262,132 higher than budgeted and expenses were \$1,811,746 more than budgeted. The higher expenses were due to the additional salary and equipment costs associated with the wildfires. Overall, on a budgetary basis, the District had a negative variance of \$1,549,614 for the year.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of December 2011, the District had \$10,836,199, net of accumulated depreciation, invested in a broad range of capital assets, including firefighting equipment, buildings and vehicles. This amount represents a net increase of \$899,765, or 9.06%, from last year. The current depreciation expense was \$839,296.

Table 3 - Capital Assets at Year-end  
Governmental Activities

	Governmental Activities	
	2010	2011
Land and buildings	\$ 7,924,222	\$ 7,943,672
Vehicles	5,387,364	7,050,465
Equipment and gear	2,231,945	2,288,455
Less depreciation	(5,607,097)	(6,446,393)
Total Assets	<u>\$ 9,936,434</u>	<u>\$ 10,836,199</u>

### Debt

At December 2011 the District had \$5,811,445 in notes payable outstanding. This represents a decrease of \$762,160 from 2010. No new debt agreements were entered into during the current year. All long-term debt is currently scheduled to be paid off in 2022.

Table 4 - Outstanding Debt at Year-end  
Governmental Activities

	Governmental Activities	
	2010	2011
Station	\$ 4,264,258	\$ 3,994,644
Refinance pumpers and tankers	725,980	371,111
Fire trucks (3)	1,583,367	1,445,690
Total Long-Term Debt	<u>\$ 6,573,605</u>	<u>\$ 5,811,445</u>

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's appointed officials and citizens considered many factors when setting the 2012 budget. The economy, employment growth, traffic patterns and other factors were all a part of the factors used. The general fund revenues were budgeted at \$4,189,502. The combined ad valorem tax rate will change to 9.88 cents per hundred dollars of valuation.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Secretary at Station 181 at 18215 Buddy Riley Blvd., Magnolia, Texas 77354.

VANWASSEHNOVA AND ASSOCIATES  
Certified Public Accountants

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Independent Auditor's Report

To the Board of Commissioners  
Montgomery County Emergency Services District #10  
Magnolia, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montgomery County Emergency Services District #10 (the "District"), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 of material misstatement. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montgomery County Emergency Services District #10 as of December 31, 2011, 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 and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*VanWassehnova & Associates*

VanWassehnova & Associates  
May 1, 2012



**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**

**Statement of Net Assets**

**December 31, 2011**

	<b>Governmental</b>	
	<b>Activities</b>	<b>Total</b>
	<hr/>	<hr/>
<b>Assets</b>		
Cash and cash equivalents	\$ 5,070,499	\$ 5,070,499
Prepaid expenses	300,743	300,743
Receivables	2,081,698	2,081,698
Capital assets, net	10,836,199	10,836,199
Total assets	<hr/>	<hr/>
	18,289,139	18,289,139
<b>Liabilities</b>		
Accounts payable	18,800	18,800
Deferred revenue	1,958,157	1,958,157
Noncurrent liabilities:		
Due within one year	797,682	797,682
Due in more than one year	5,013,763	5,013,763
Total liabilities	<hr/>	<hr/>
	7,788,402	7,788,402
<b>Net assets</b>		
Invested in capital assets, net of related debt	5,024,754	5,024,754
Assigned	1,388,423	1,388,423
Unassigned	4,087,560	4,087,560
	<hr/>	<hr/>
Total net assets	\$ 10,500,737	\$ 10,500,737
	<hr/>	<hr/>

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

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**

**Statement of Activities**

**For the Year Ended December 31, 2011**

<b>Function/programs</b>	<u><b>Expenses</b></u>	<u><b>Net (Expense) Revenue and Changes in Net Assets</b></u>
Primary government:		
General government	\$ 4,034,055	\$ (4,034,055)
Interest on long-term debt	<u>305,268</u>	<u>(305,268)</u>
<b>Total primary government</b>	<u><u>\$ 4,339,323</u></u>	<u><u>(4,339,323)</u></u>
 General revenues:		
Ad valorem taxes		4,256,327
Penalties		54,985
Miscellaneous		126,531
Investment earnings		<u>13,791</u>
<b>Total general revenues</b>		<u><u>4,451,634</u></u>
 <b>Change in net assets</b>		112,311
 <b>Net assets - beginning</b>		<u>10,388,426</u>
 <b>Net assets - ending</b>		<u><u>\$ 10,500,737</u></u>

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

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2011**

	Governmental Fund Types		
	General	Debt Service	Total
<b>Assets</b>			
Cash on hand and in bank	\$ 10,959	\$ 2,053,515	\$ 2,064,474
Certificates of deposit/investments	1,652,492	1,353,533	3,006,025
Prepaid expenses	300,743	-	300,743
Receivables, net of uncollectibles:			
Delinquent taxes	1,926,391	31,766	1,958,157
Due from other funds	2,018,963	-	2,018,963
Due from State	99,672	-	99,672
Other	23,531	338	23,869
	<u>\$ 6,032,751</u>	<u>\$ 3,439,152</u>	<u>\$ 9,471,903</u>
Total assets			
<b>Liabilities</b>			
Accounts payable	\$ 18,800	\$ -	\$ 18,800
Due to other funds	-	2,018,963	2,018,963
Deferred revenues	1,926,391	31,766	1,958,157
	<u>1,945,191</u>	<u>2,050,729</u>	<u>3,995,920</u>
Total liabilities			
<b>Fund balance</b>			
Fund balance - assigned	-	1,388,423	1,388,423
Fund balance unassigned	4,087,560	-	4,087,560
	<u>4,087,560</u>	<u>1,388,423</u>	<u>5,475,983</u>
Total fund balance			
<b>Total liabilities and fund balances</b>	<u>\$ 6,032,751</u>	<u>\$ 3,439,152</u>	<u>\$ 9,471,903</u>

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

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**  
**Reconciliation of Total Governmental Fund Balance**  
**to Net Assets of Governmental Activities**  
**December 31, 2011**

Total governmental fund balances	\$ 5,475,983
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore not reported in governmental funds	10,836,199
Long-term liabilities are not reported as liabilities in the governmental funds	<u>(5,811,445)</u>
Net assets of governmental activities	<u><u>\$10,500,737</u></u>

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

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2011**

	General Fund	Debt Service	Total
<b>Revenues</b>			
Ad valorem taxes	\$ 4,240,113	\$ 16,214	\$ 4,256,327
Penalty & interest	51,717	3,268	54,985
Investment earnings	9,468	4,323	13,791
Other income	126,531	-	126,531
Total revenues	<u>4,427,829</u>	<u>23,805</u>	<u>4,451,634</u>
<b>Expenditures</b>			
Current:			
General government	4,100,186	1,506,856	5,607,042
Bond interest	162,001	-	162,001
Bond principal	232,205	-	232,205
Total expenditures	<u>4,494,392</u>	<u>1,506,856</u>	<u>6,001,248</u>
Change in fund balance before transfers	(66,563)	(1,483,051)	(1,549,614)
Transfers	<u>441,621</u>	<u>(441,621)</u>	<u>-</u>
Net change in fund balance	375,058	(1,924,672)	(1,549,614)
Fund balances-beginning	<u>3,712,502</u>	<u>3,313,095</u>	<u>7,025,597</u>
Fund balances-ending	<u>\$ 4,087,560</u>	<u>\$ 1,388,423</u>	<u>\$ 5,475,983</u>

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

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended December 31, 2011**

Net change in fund balances-total governmental funds \$ (1,549,614)

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

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 as depreciation expense. This is the amount of depreciation for the year. (839,296)

This is the amount of capital expenditures for the year. 1,739,061

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of current year repayments. 762,160

Change in net assets of governmental activities \$ 112,311

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

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #1**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 1 - Summary of Significant Accounting Policies**

**A. General Statement**

Montgomery County Emergency Services District #10 ("District") operates under Chapter 775, "Emergency Services Districts" of V.T.C.A., Health & Safety Code. The District was converted from a Rural Fire Prevention District on January 1, 1996.

The District is a duly organized emergency services district, created to protect life and property from fire and to conserve natural and human resources. The District is funded by property taxes as paid to it by its citizens (residential and commercial property owners). The District wants provide fire fighting facilities and fire suppression and rescue services for its citizens. As the District does not employ personnel to provide such facilities and services, the District entered into a contract ("Service Agreement") with the Magnolia Volunteer Fire Department ("Department"). The Department is a duly qualified and sufficiently equipped and staffed independent entity located within the District and can provide such desired fire fighting facilities and fire suppression and rescue services.

The Service Agreement stipulates, in part, that all fire fighting and fire suppression and rescue service will be provided by the Department for the benefit of the Districts citizens. For such services, the District will provide, to the Department, sufficient revenue for the overall operations and payroll of the Department.

The Service Agreement is effective for a three year period commencing on January 1, 2009 and continuing through to December 31, 2011, and shall continue as provided unless explicitly terminated. The Service Agreement has not been explicitly terminated.

The accounting and reporting policies of the District relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB).

**B. Financial Reporting Entity**

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on this, the District has no component units.

### C. Implementation of New Standards

In the current year, the District implemented the following new standards:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The effects of the statement have been included within this financial report.

GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The effects of the statement have been included within this financial report.

### D. Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District maintains only a governmental activities fund.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

### E. Basic Financial Statements - Fund Financial Statements

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

General Fund - The General Fund is the main operating fund of the District. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service revenues are primarily from a tax levy in an amount sufficient to meet debt service requirements in the subsequent year and from interest received from investment of cash not immediately required for debt service payments.



#### F. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both 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 (30 days) to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

#### G. Budgetary Control

The District has established its fiscal year as the twelve-month period beginning December 1. The Board of Commissioners estimate expenditures for the ensuing fiscal year after which the Board President submits a budget of estimated expenditures and revenues to the District. The budget is then legally enacted through passage of an ordinance. The Board President is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Commissioners.

Budgeted amounts are as originally adopted or as amended by the Board of Commissioners. Individual amendments were not material in relation to the original adopted appropriations.

The Statement of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual— General Fund presents a comparison of budgetary data to actual results of operations for which annual operating budgets are legally adopted. The General Fund uses the same basis of accounting for both budgetary purposes and actual results.

#### H. Deferred Revenues

According to generally accepted accounting principles, the full amount of taxes receivable has been recognized and offset against deferred revenues. Revenues will subsequently be recognized in the fiscal year in which they become available to finance expenditures of that fiscal year.

#### I. Estimates

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

J. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of net Assets. The long-term debt consists of loans and capital leases. The District is not obligated in any manner for special assessment debt.

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

K. Concentration of Credit Risk

In the case of deposits, credit risk is the risk that in the event of a bank failure, the District's deposits, that exceed federally insured limits (\$250,000 for 2011), may not be returned to it. The District's investment policy requires funds on deposit at the depository bank to be collateralized by securities. The bank deposits of the District, at times, may exceed this federally insured limit. The District has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash.

L. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental columns in the government-wide financial statements. 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 estimated fair market value on the date donated. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Depreciation has been calculated on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

Buildings and improvements	30 Years
Vehicles	5 Years
Equipment	10-15 Years

M. Interfund Transfers, Receivables and Payables

During the year ended December 31, 2011, the District transferred \$441,621 from the Debt Service Fund to the General Fund.

Short-term amounts owed between funds are classified as "Due to/from other funds". Any residual balances outstanding between the governmental are reported in the government-wide statements. At December 31, 2011, the due to/from other funds was \$2,018,963.

## N. Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (“Statement”) was issued in February 2009 and is effective for financial statements issued for years beginning after June 15, 2010. The objective of the Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The District has evaluated the use of its Debt Service Fund under the criteria set forth in the Statement and has determined that there is no change needed.

As prescribed by the Statement, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable Fund Balance—includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance—includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance— includes amounts that can only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

Assigned Fund Balance—includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (a) The Board of Commissioners or (b) a body (a budget, finance committee) to which the assigned amounts are to be used for specific purposes.

Unassigned Fund Balance—includes all residual amounts in governmental funds that are not classified as nonspendable, restricted, or committed. Unassigned amounts are available for any purpose. It may also be used to report negative fund balances in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

In all cases, encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

## O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the district or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

## **Note 2 - Budget Basis of Accounting**

The District prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the District's method (budget basis) in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual to provide a meaningful comparison of actual results with the budget. The major difference between budget and GAAP basis in the General Fund is that depreciation, since it is not a cash expense, is not budgeted. Depreciation for the general fund for the year ending December 31, 2011 was \$839,296

## **Note 3 – Deposits and Investments**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day to day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance. District funds and taxes collected were adequately secured at all times during the year.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, as amended by, GASB Statement No. 59, *Financial Instruments Omnibus*, the District reports all investments at fair value, except for “money market investments” and “2a-7-like pools.” Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the Security and Exchange Commissions (SEC) Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The Texas Local Government Investment Pool (“TexPool”) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

Deposits and investments at December 31, 2011 consisted of cash on deposit at local banks, TexPool, or certificates of deposit and were insured by the Federal Deposit Insurance Corporation (FDIC) or secured by US Government Securities.

The District invests in TexPool. 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 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 rates TexPool AAA.

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.

The District's deposits and investments are categorized as one of the following:

Category #1 - Insured or registered for which the securities are held by the government agents in the District's name.

Category #2 - Uninsured and unregistered for which the securities are held by the dealer's trust department or agent in the District's name.

Category #3 - Uninsured and unregistered for which the securities are held by the dealer or by its trust department but not in the District's name.

At December 31, 2011, all of the District's investments were in category #1.

#### **Note 4 – Commitment**

The District, along with 15 other organizations, has entered into a VHF Simulcast Communications Agreement with Montgomery County Hospital District. The 16 organizations are represented by the Montgomery County Fire Chiefs Association, Inc. Payments will be made by each organization of \$18,295 per year until 2025.

#### **Note 5 - Property Taxes**

The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values are determined by the Montgomery County Appraisal District. Property taxes are levied on October 1 and are payable on or before January 31. They attach as an enforceable lien on January 1. Penalties and interest are charged if taxes are not paid by the succeeding January 31.

The tax rate in effect during the year ended December 31, 2011 was 10 cents per \$100 of valuation for 2010 taxes and 9.88 cents per \$100 valuation for 2011 taxes.

#### **Note 6 – Risk Management**

The District is exposed to various risks of loss related to theft of, damage to and destruction of assets, errors and omissions, and personal injury and death for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts. In the current fiscal year, the District consulted with insurance adjusters in an effort to reduce the overall cost of its insurance coverage.

#### **Note 7 – New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued several new pronouncements. A review of these new pronouncements has determined that none are applicable to the District.

**Note 8 – Subsequent Events**

The District has evaluated events, transactions, or pronouncements that may impact the financial statements for the year ended December 31, 2011 through May 1, 2012, the date the financial statements were available to be issued. There were no subsequent events, transactions, or pronouncements that require recognition or disclosure in the financial statements.

## Note 9 - Long-Term Debt

The following is a summary of notes payable transactions for the year ended December 31, 2011:

	Balance 12-31-2010	Increases	Decreases	Balance 12-31-2011
First State Bank of Livingston-land	\$ -	\$ -	\$ -	\$ -
First Bankers Corporation-ladder truck	-	-	-	-
Wells Fargo refinance and equipment	725,980	-	(354,869)	371,111
Wells Fargo-main station	4,264,258	-	(269,614)	3,994,644
Houston Community Bank-3 trucks	1,583,367	-	(137,677)	1,445,690
	<u>\$ 6,573,605</u>	<u>\$ -</u>	<u>\$ (762,160)</u>	<u>\$ 5,811,445</u>

Notes payable at December 31, 2011 were comprised of the following:

Wells Fargo note payable for the refinance of six E-One C2 pumpers and six Freightliner FL112 30K tankers and an additional \$500,000 in equipment. (one of the tankers was totaled in 2005) Payments are as shown semi-annually and include interest at 4.53% payable on April 1st and October 1st of each year through 2012. The loan is secured by the equipment. At December 31, 2011, the balance was \$371,111.

<u>Payment Date</u>	<u>Total Payment</u>	<u>Principal Payment</u>	<u>Purchase Option Price</u>
October 2004	\$ 298,764	\$ 209,713	\$ 3,370,300
April 2005	298,764	226,302	3,132,117
October 2005	298,764	231,423	2,888,544
April 2006	273,867	216,938	2,639,460
October 2006	273,867	221,847	2,384,739
April 2007	273,867	226,867	2,124,253
October 2007	191,878	150,012	1,952,012
April 2008	191,878	153,406	1,775,874
October 2008	191,878	156,877	1,595,749
April 2009	191,878	160,428	1,411,549
October 2009	191,878	164,088	1,223,190
April 2010	191,878	167,771	1,030,549
October 2010	191,878	171,567	833,559
April 2011	191,878	175,449	632,111
October 2011	191,878	179,420	426,104
April 2012	191,878	183,480	215,436
October 2012	191,878	187,631	-
Total	3,828,551	3,183,219	
Retired through 2011	<u>3,444,795</u>	<u>2,812,108</u>	
Balance	<u>\$ 383,756</u>	<u>\$ 371,111</u>	

Wells Fargo note payable for the the purchase of 3.25 acres of land the the construction of a new fire station. Payments are \$478,136 annually and include interest at 4.89% payable on January 30th of each year through 2022. The loan is secured by the real estate. At December 31, 2011, the balance was \$3,994,644

<u>Year Ending</u>	<u>Total Payment</u>	<u>Principal Payment</u>	<u>Purchase Option Price</u>
December 2008	\$ 478,136	\$ 233,636	\$ 4,887,905
December 2009	478,136	245,061	4,629,724
December 2010	478,136	257,045	4,359,925
December 2011	478,136	269,614	4,077,986
December 2012	478,136	282,798	3,783,358
December 2013	478,136	296,627	3,475,473
December 2014	478,136	311,132	3,153,733
December 2015	478,136	326,347	2,817,515
December 2016	478,136	342,304	2,466,167
December 2017	478,136	359,044	2,099,008
December 2018	478,136	376,601	1,715,326
December 2019	478,136	395,017	1,314,380
December 2020	478,136	414,333	895,391
December 2021	478,136	434,593	457,546
December 2022	478,136	455,848	1
Total	7,172,040	5,000,000	
Retired through 2011	1,912,544	1,005,356	
Balance	<u>\$ 5,259,496</u>	<u>\$ 3,994,644</u>	



Houston Community Bank note payable for the the purchase of three new vehicles. Payments are \$102,768 bi-annually and include interest at 4.38% payable on November 20th and May 20th of each year through 2020. The loan is secured by the equipment and tax revenues. At December 31, 2011, the balance was \$1,445,690

<u>Payment Date</u>	<u>Total Payment</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
November 2010	\$ 102,768	\$ 66,633	\$ 36,135
May 2011	102,768	68,093	34,675
November 2011	102,768	69,584	33,184
May 2012	102,768	71,108	31,660
November 2012	102,768	72,665	30,103
May 2013	102,768	74,256	28,512
November 2013	102,768	75,882	26,886
May 2014	102,768	77,544	25,224
November 2014	102,768	79,243	23,525
May 2015	102,768	80,977	21,791
November 2015	102,768	82,751	20,017
May 2016	102,768	84,563	18,205
November 2016	102,768	86,415	16,353
May 2017	102,768	88,308	14,460
November 2017	102,768	90,242	12,526
May 2018	102,768	92,218	10,550
November 2018	102,768	94,238	8,530
May 2019	102,768	96,302	6,466
November 2019	102,768	98,410	4,358
May 2020	102,772	100,568	2,204
Total	2,055,364	1,650,000	405,364
Retired through 2011	308,304	204,310	103,994
Balance	<u>\$ 1,747,060</u>	<u>\$ 1,445,690</u>	<u>\$ 301,370</u>

Total Long-Term Debt requirements are as follows:

<u>Year Ending</u>	<u>Total Payment</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
December 2012	\$ 1,067,428	\$ 797,682	\$ 269,746
December 2013	683,672	446,765	236,907
December 2014	683,672	467,919	215,753
December 2015	683,672	490,075	193,597
December 2016	683,672	513,282	170,390
December 2017	683,672	537,594	146,078
December 2018	683,672	563,057	120,615
December 2019	683,672	589,729	93,943
December 2020	580,908	514,901	66,007
December 2021	478,136	434,593	43,543
December 2022	478,136	455,848	22,288
	<u>\$ 7,390,312</u>	<u>\$ 5,811,445</u>	<u>\$ 1,578,867</u>

## Note 10 - Capital Assets

A summary of changes in capital assets follows:

<b>Governmental Activities</b>	<u>Balance 12-31-2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12-31-2011</u>
Capital assets not being depreciated				
Land	\$ 1,318,001	\$ 10,000	\$ -	\$ 1,328,001
Capital assets being depreciated				
Office equipment	229,731	-	-	229,731
Buildings	6,606,221	9,450	-	6,615,671
Vehicles	5,387,364	1,663,101	-	7,050,465
Equipment	2,002,214	56,510	-	2,058,724
Total capital assets being depreciated	<u>14,225,530</u>	<u>1,729,061</u>	<u>-</u>	<u>15,954,591</u>
Less accumulated depreciation				
Office equipment	(85,491)	(26,176)	-	(111,667)
Buildings	(939,630)	(220,533)	-	(1,160,163)
Vehicles	(3,242,983)	(482,825)	-	(3,725,808)
Equipment	(1,338,993)	(109,762)	-	(1,448,755)
Total accumulated depreciation	<u>(5,607,097)</u>	<u>(839,296)</u>	<u>-</u>	<u>(6,446,393)</u>
Governmental Activities Capital Assets, net	<u>\$ 9,936,434</u>	<u>\$ 899,765</u>	<u>\$ -</u>	<u>\$ 10,836,199</u>

**SUPPLEMENTAL INFORMATION**

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual (Budgetary Basis)**  
**General & Debt Service Fund**  
**For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Amended		Positive (Negative)
<b>Revenues</b>				
Ad valorem taxes (and P&I)	\$ 4,158,341	\$ 4,158,341	\$ 4,311,312	\$ 152,971
Investment earnings	15,000	15,000	13,791	(1,209)
Miscellaneous	16,161	16,161	126,531	110,370
Total revenues	<u>4,189,502</u>	<u>4,189,502</u>	<u>4,451,634</u>	<u>262,132</u>
<b>Expenditures</b>				
General government	3,122,073	3,122,073	5,607,042	(2,484,969)
Bond principal and interest	1,067,429	1,067,429	394,206	673,223
Total expenditures	<u>4,189,502</u>	<u>4,189,502</u>	<u>6,001,248</u>	<u>(1,811,746)</u>
Net change in fund balance	-	-	(1,549,614)	<u>\$ (1,549,614)</u>
Fund balance-beginning	<u>7,025,597</u>	<u>7,025,597</u>	<u>7,025,597</u>	
Fund balance-ending	<u>\$ 7,025,597</u>	<u>\$ 7,025,597</u>	<u>\$ 5,475,983</u>	

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**

**Statement of Expenses**

**Governmental Funds**

**For the Year Ended December 31, 2011**

	General Fund	Debt Service	Total
Fire department payroll	\$ 1,881,101	\$ -	\$ 1,881,101
Capital outlay	232,205	1,506,856	1,739,061
Debt service - principal	762,160	-	762,160
Fire department maintenance	638,878	-	638,878
Debt service - interest	305,268	-	305,268
Payroll	162,001	-	162,001
Fire department other	140,101	-	140,101
Miscellaneous	109,792	-	109,792
Workers Compensation	51,613	-	51,613
Dispatch	40,124	-	40,124
Insurance	39,133	-	39,133
Bookkeeping	37,722	-	37,722
Appraisal district	30,558	-	30,558
Legal fees	26,743	-	26,743
Radio tower	18,295	-	18,295
Audit fees	7,000	-	7,000
Tax assessor/collector fee	5,128	-	5,128
Office supplies	2,590	-	2,590
Travel	1,417	-	1,417
Membership & dues	1,000	-	1,000
Postage & delivery	779	-	779
Legal notices	591	-	591
Bank fees	193	-	193
	<hr/>	<hr/>	<hr/>
Total general fund expenses	4,494,392	1,506,856	6,001,248
Adjustments to the Statement of Activities:			
Depreciation	-	839,296	839,296
Bond principal payments	(762,160)	-	(762,160)
Capital outlay	(232,205)	(1,506,856)	(1,739,061)
	<hr/>	<hr/>	<hr/>
Total Primary Government Expenses	\$ 3,500,027	\$ 839,296	\$ 4,339,323
	<hr/>	<hr/>	<hr/>

**MONTGOMERY COUNTY EMERGENCY SERVICES DISTRICT #10**  
**Schedule of Property Taxes Receivable**

Year	Property Valuation	Tax Rate Per Hundred	Total Assessment
2003	\$ 2,068,485,997	.10	\$ 2,068,486
2004	2,057,311,891	.10	2,057,312
2005	2,253,722,761	.10	2,253,723
2006	2,579,849,625	.10	2,579,850
2007	2,979,082,380	.10	2,979,082
2008	4,137,440,923	.10	4,137,441
2009	4,606,454,592	.095	4,378,996
2010	4,080,208,246	.10	4,080,208
2011	4,249,505,345	0.0988	4,198,511

Taxes Receivable, by years:

2001 & prior	\$ 6,044
2002	3,481
2003	4,374
2004	5,512
2005	6,509
2006	9,517
2007	12,820
2008	17,670
2009	33,098
2010	60,939
2011	<u>1,798,193</u>

Total taxes receivable as of December 31, 2011

\$ 1,958,157