

ANNUAL FINANCIAL REPORT

of the

Montgomery County Emergency Communication District

For the Year Ended

September 30, 2015



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Montgomery County Emergency Communication District

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers of the
Montgomery County Emergency Communication District:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Montgomery County Emergency Communication District (the "District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note F, to the financial statements, during 2015, the District adopted new accounting guidance Governmental Accounting Standard Board "GASB" Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Correction of an Error

As disclosed in Note F, in the year ending September 30, 2015, the District restated its net position as of September 30, 2014 to correct an error. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information


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

because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montgomery County Emergency Communication District's basic financial statements. The accompanying other supplementary information, such as the budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully,

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
The Woodlands, Texas
May 11, 2016

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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Montgomery County Emergency Communication District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the Montgomery County Emergency Communication District (the "District") for the year ended September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

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

Financial Highlights

- The assets of the District exceeded its liabilities (net position) at September 30, 2015 by \$7,676,594. Of this amount, \$4,631,311 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net pension liability is now reported on the Statement of Net Position with the change in accounting treatment resulting from implementation of GASB 68. The net pension liability as of September 30, 2015 and 2014 was \$908,081 and \$807,759, respectively.
- The District's total net position decreased by \$135,744.

Financial Statements

The District is designated as a special-purpose government engaged only in business-type activities consistent with GASB 34. Governments engaged only in business-type activities should present only the financial statements required for enterprise funds. As a result, the financial statements presented within this report consist of the enterprise fund financial statements (i.e., the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows). The District has one enterprise fund.

Enterprise Fund Types

Montgomery County Emergency Communication District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

Enterprise funds are used to account for activities that are similar to those often found in the private sector. For the District this covers all activities. The measurement focus is on determination of net income, financial position, and cash flows. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Enterprise fund types follow Generally Accepted Accounting Principles "GAAP" as prescribed by the Governmental Accounting Standards Board "GASB".

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information ("RSI"). The RSI that GASB Statement No. 34 requires includes a schedules for the District's pension liability and post-employment healthcare benefits. The RSI can be found after the notes to the financial statements within this report.

DISTRICT FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. For the District, assets exceed liabilities by \$7,676,594 as of year-end. Unrestricted net position, \$4,631,311, may be used to meet the District's ongoing emergency communication operations.

Montgomery County Emergency Communication District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position as of September 30:

| | Business-Type Activities | |
|---------------------------------------|---------------------------------|--------------|
| | 2015 | 2014 |
| Current and other assets | \$ 6,328,423 | \$ 6,303,722 |
| Capital assets, net | 3,045,283 | 2,658,004 |
| Total Assets | 9,373,706 | 8,961,726 |
| Deferred Outflows of resources | 165,598 | 85,769 |
| Accounts payable and accrued expenses | 753,238 | 258,408 |
| Net pension liability | 908,081 | 807,759 |
| Compensated absences | 126,923 | 98,905 |
| Post-employment benefits | 74,468 | 70,085 |
| Total Liabilities | 1,862,710 | 1,235,157 |
| Net position: | | |
| Net investment in capital assets | 3,045,283 | 2,658,004 |
| Unrestricted | 4,631,311 | 5,154,334 |
| Total Net Position | \$ 7,676,594 | \$ 7,812,338 |

There was an increase of \$494,830 in accounts payable and accrued expenses at September 30, 2015 compared 2014. The increase was due to limited funds in the District's operating account at yearend resulting in delays in payments until a transfer could be processed from one of the non-operating accounts.

Montgomery County Emergency Communication District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

Statement of Revenues, Expenses, and Changes to Net Position:

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

| | Business-Type Activities | |
|---|---------------------------------|---------------------|
| | 2015 | 2014 |
| Operating Revenues | | |
| Service revenues | \$ 4,573,832 | \$ 4,557,912 |
| Total Operating Revenues | <u>4,573,832</u> | <u>4,557,912</u> |
| Operating Expenses | | |
| Cost of services | 2,500,940 | 2,317,879 |
| Personnel costs | 1,229,959 | 1,152,334 |
| General and administrative | 404,021 | 393,614 |
| Depreciation | 433,456 | 409,942 |
| Total Operating Expenses | <u>4,568,376</u> | <u>4,273,769</u> |
| Nonoperating Revenues (Expenses) | | |
| Grant expenses | (189,210) | - |
| Other income | 25,239 | 1,594 |
| Investment income | 22,771 | 4,078 |
| Total Nonoperating Revenues (Expenses) | <u>(141,200)</u> | <u>5,672</u> |
| Change in Net Position | (135,744) | 289,815 |
| Beginning Net Position | <u>7,812,338</u> | <u>7,522,523</u> |
| Ending Net Position | <u>\$ 7,676,594</u> | <u>\$ 7,812,338</u> |

The District reported a decrease in net position of \$135,744. This is primarily due to depreciation expense.

In 2015 there was an increase of \$189,210 in grant expense due to the beginning of the Public Safety Answering Point Improvement Participation Program.

Montgomery County Emergency Communication District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

BUDGETARY HIGHLIGHTS

Actual revenues were more than final budgeted revenues by \$285,332 during the year. Operating expenses were under the final budget by \$81,580. Non-operating revenues (expenses) were more positive than the budget by \$199,165. The net overall variance was positive \$566,077.

CAPITAL ASSETS

As of the end of the year, the District funds had invested \$3,045,283 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Purchase and installation of dispatch and supporting equipment for \$713,300
- Building improvements for \$76,316
- Purchase of a truck for \$31,119

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's appointed officials and citizens considered many factors when setting the 2016 fiscal year budget. The economy, employment growth, cell phone and VOIP use, as well as other factors were all part of the factors used. Revenues are budgeted at \$4,297,500. Operating expenses are budgeted at \$4,292,700. These estimates are expected to provide an operating surplus to the District of \$4,800.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Executive Director at 150 Hilbig Road in Conroe, Texas.

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FINANCIAL STATEMENTS

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Montgomery County Emergency Communication District

STATEMENT OF NET POSITION

September 30, 2015

| | Business-Type Activities |
|---|-----------------------------|
| <u>Assets</u> | |
| Current Assets | |
| Cash and cash equivalents | \$ 2,201,632 |
| Investments | 506,222 |
| Receivables | 327,641 |
| Total Current Assets | 3,035,495 |
| Noncurrent Assets | |
| Investments | 3,292,928 |
| Net depreciable capital assets | 3,045,283 |
| Total Noncurrent Assets | 6,338,211 |
| Total Assets | 9,373,706 |
| <u>Deferred Outflows of Resources</u> | |
| Pension contributions | 94,878 |
| Pension investment earnings actual compared to assumption | 34,431 |
| Pension losses (gains) | 36,289 |
| Total Deferred Outflows of Resources | 165,598 |
| <u>Liabilities</u> | |
| Current Liabilities | |
| Accounts payable and accrued expenses | 753,238 |
| Compensated absences | 114,231 |
| Total Current Liabilities | 867,469 |
| Noncurrent Liabilities | |
| Compensated absences, net of current portion | 12,692 |
| Post-employment benefits | 74,468 |
| Net pension liability | 908,081 |
| Total Liabilities | 1,862,710 |
| <u>Net Position</u> | |
| Net investment in capital assets | 3,045,283 |
| Unrestricted | 4,631,311 |
| Total Net Position | \$ 7,676,594 |

See Notes to Financial Statements.

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Montgomery County
Emergency Communication District
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended September 30, 2015

| | <u>Business-Type Activities</u> |
|--|-------------------------------------|
| <u>Operating Revenues</u> | |
| Service revenues | \$ 4,573,832 |
| Total Operating Revenues | <u>4,573,832</u> |
| <u>Operating Expenses</u> | |
| Cost of services | 2,500,940 |
| Personnel costs | 1,229,959 |
| General and administrative | 404,021 |
| Depreciation | 433,456 |
| Total Operating Expenses | <u>4,568,376</u> |
| Operating Income | <u>5,456</u> |
| <u>Nonoperating Revenues (Expenses)</u> | |
| Grant expenses | (189,210) |
| Other income | 25,239 |
| Investment income | 22,771 |
| Total Nonoperating Revenues (Expenses) | <u>(141,200)</u> |
| Change in Net Position | <u>(135,744)</u> |
| Beginning Net Position | <u>7,812,338</u> |
| Ending Net Position | <u>\$ 7,676,594</u> |

See Notes to Financial Statements.

Montgomery County Emergency Communication District

STATEMENT OF CASH FLOWS (Page 1 of 2)

For the Year Ended September 30, 2015

| | Business-Type Activities |
|--|-------------------------------------|
| <u>Cash Flows from Operating Activities</u> | |
| Receipts from customers | \$ 4,640,320 |
| Payments to employees | (1,164,586) |
| Payments to suppliers | (2,611,820) |
| Net Cash Provided by Operating Activities | 863,914 |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Capital purchases | (820,735) |
| Net Cash (Used) by Capital and Related Financing Activities | (820,735) |
| <u>Cash Flows from Investing Activities</u> | |
| Purchases of investments, net | (2,299,551) |
| Net Cash (Used) by Investing Activities | (2,299,551) |
| Net (Decrease) in Cash and Cash Equivalents | (2,256,372) |
| Beginning cash and cash equivalents | 4,458,004 |
| Ending Cash and Cash Equivalents | \$ 2,201,632 |

See Notes to Financial Statements.

Montgomery County Emergency Communication District

STATEMENT OF CASH FLOWS (Page 2 of 2)

For the Year Ended September 30, 2015

| | Business-Type Activities |
|---|-------------------------------------|
| <u>Reconciliation of Operating Income</u> | |
| <u>to Net Cash Provided by Operating Activities</u> | |
| Operating income | \$ 5,456 |
| Adjustments to reconcile operating income to net cash provided: | |
| Depreciation | 433,456 |
| Grant expenses | (189,210) |
| Miscellaneous income | 25,239 |
| Changes in Operating Assets and Liabilities: | |
| (Increase) Decrease in: | |
| Accounts receivable | 41,249 |
| Deferred outflows of resources | (79,829) |
| Increase (Decrease) in: | |
| Accounts payable and accrued liabilities | 494,830 |
| Net pension liability | 100,322 |
| Compensated absences | 28,018 |
| Post-employment benefits liability | 4,383 |
| Net Cash Provided by Operating Activities | \$ 863,914 |
| <u>Schedule of Non-Cash Capital and Related Financing Activities</u> | |
| Increase in fair value of investments | \$ 37,705 |

See Notes to Financial Statements.

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Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Financial Statements and Reporting Entity

The financial statements (i.e., the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows) report information on all activities of the primary government.

The Montgomery County Emergency Communication District (the "District") is a special purpose emergency communications district authorized under the provisions of the State of Texas Health Safety Code Section 772 entitled "Emergency Telephone Number Act" to facilitate the quick response to persons seeking police, fire, rescue and other emergency services. The District was created on November 5, 1985. User fee charges commenced in May 1986 and full service operations commenced in January 1988.

The District is not a taxing authority. Operations of the District are funded by charges to telephone users in the jurisdictions serviced by the District. User charges for traditional land line telephones and telephones using Voice over Internet Protocol (VoIP) are set by the District's Board of Managers. The land line fee is currently 6% of the user's basic telephone charge and the VoIP fee is \$0.50 per line per month. Such fees are collected by the telephone companies serving these jurisdictions and remitted directly to the District. Additionally, wireless customers pay a fee of \$0.50 per phone for monthly contract service or 2% of the total sale for prepaid service. The wireless providers pay these fees to the State of Texas and the State remits a monthly payment to the District based on the District's proportionate percentage of the state's population.

The financial objective of the District is to cover annual operating costs and actual and anticipated capital expenditure outlays.

The operational objective of the District is to improve emergency communications for those in need of help and as provided by those whose job is to provide efficient and effective responses to calls.

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

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

B. Basis of Presentation of Financial Statements

Since the District is not a taxing authority and earns all revenue through services, no governmental funds exist for the District. The District is designated as a special-purpose government engaged only in business-type activities consistent with GASB 34. Governments engaged only in business-type activities should present only the financial statements required for enterprise funds. As a result, the financial statements presented within this report consist of the enterprise fund financial statements (i.e., the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows). The District has one enterprise fund.

Enterprise Fund Types

Enterprise funds are used to account for activities that are similar to those often found in the private sector. For the District this covers all activities. The measurement focus is on determination of net income, financial position, and cash flows. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Enterprise fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB).

C. Measurement Focus and Basis of Accounting

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

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

The accrual basis of accounting is used for the enterprise fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

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

1. Deposits and Investments

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

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

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

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Capital Assets

Capital assets, which include the District's building, office equipment, furniture and fixtures, and vehicles, are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| Vehicles | 5 years |
| Furniture and equipment | 5 - 10 years |
| Buildings and improvements | 15 - 30 years |

3. Net Position

Net position is displayed in three components:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - This component of net position consists of constraints placed on use either by (1) external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or (2) law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

4. 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.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred expense on the net pension liability reported in the statement of net position. This expense is deferred pursuant to GASB 68 and is later amortized to expense in subsequent accounting periods.

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government may have deferred gains that are considered deferred inflows of resources on the statement of net position. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Compensated Absences

The liability for compensated absences reported in the financial statements consist of unpaid, accumulated vacation and sick time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation or sick leave for proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees. The balance for compensated absences as of September 30, 2015 was \$126,923.

7. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas County & District Retirement System (TCDRS) and additions to/deductions from TCDRS's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The District's investment policy requires full collateralization of all time and bank deposits consistent with Chapter 2257 of the Public Funds Collateral Act. As of September 30, 2015 the District's time and bank deposits were fully insured by the FDIC.

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the District had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|---------------------|--|
| Certificates of deposit | \$ 490,140 | 1.23 |
| US Government bonds | 500,740 | 2.37 |
| Municipal bonds | 2,808,270 | 1.25 |
| External investment pools | 2,201,513 | 0.11 |
| Total fair value | <u>\$ 6,000,663</u> | |
| Portfolio weighted average maturity | | 0.92 |

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk. The District's investment policy limits investments in money market mutual funds rated as to investment quality not less than AAA by Standard & Poor's. As of September 30, 2015, the District's investment in TexPool was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2015 the District's time and bank deposits were fully insured by FDIC.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

versus payment to ensure that securities are deposited in the District's safekeeping account prior to the release of funds.

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 rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

B. Receivables

The following comprises the receivable balance of the District at year end:

| | <u>9/30/15</u> |
|--|-------------------|
| Owed from telecommunication companies for 911 services | \$ 327,641 |
| Total | <u>\$ 327,641</u> |

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2015

C. Capital Assets

A summary of changes in the District's capital assets for the year end was as follows:

| | Beginning Balances | Increases | Decreases/ Reclassifications | Ending Balances |
|--|-----------------------|-------------------|---------------------------------|---------------------|
| Capital assets, being depreciated: | | | | |
| Building & Improvements | \$ 1,988,851 | \$ 76,316 | \$ - | \$ 2,065,167 |
| Equipment | 3,214,099 | 713,300 | - | 3,927,399 |
| Furniture and Fixtures | 314,994 | - | - | 314,994 |
| Vehicles | 45,732 | 31,119 | - | 76,851 |
| Total capital assets being depreciated | <u>5,563,676</u> | <u>820,735</u> | <u>-</u> | <u>6,384,411</u> |
| Less accumulated depreciation | | | | |
| Building & Improvements | (964,961) | (72,007) | - | (1,036,968) |
| Equipment | (1,629,714) | (347,259) | - | (1,976,973) |
| Furniture and Fixtures | (269,954) | (9,008) | - | (278,962) |
| Vehicles | (41,043) | (5,182) | - | (46,225) |
| Total accumulated depreciation | <u>(2,905,672)</u> | <u>(433,456)</u> | <u>-</u> | <u>(3,339,128)</u> |
| Net capital assets being depreciated | 2,658,004 | 387,279 | - | 3,045,283 |
| Total Capital Assets | <u>\$ 2,658,004</u> | <u>\$ 387,279</u> | <u>\$ -</u> | <u>\$ 3,045,283</u> |

Depreciation expense was \$433,456 for the year ended September 30, 2015.

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

C. Interlocal Agreements

Texas 9-1-1 Alliance - The District has joined other Emergency Communication Districts for the purpose of maintaining a group presence before the Texas Legislative and Executive branches of government, maintaining a group presence before all applicable state agencies, monitoring and reporting on all legislative activity affecting the group and monitoring and reporting on state rulemaking initiatives. It is also a goal to identify key issues, develop group positions on those issues and develop and implement a related strategy. The costs to the District will be approximately \$30,000 per year.

The City of Conroe, Texas - The City of Conroe, Texas ("Conroe") and the District have entered into an agreement for 9-1-1 call taking within Conroe. Conroe's Police Department shall have the responsibility and function of answering all 9-1-1 calls within its limits. The District shall reimburse Conroe for compensation and benefits for five 9-1-1 call operators.

Montgomery County - Montgomery County and the District have entered into an agreement for 9-1-1 call taking within Montgomery County but outside the District of Conroe. Montgomery County Sheriff's Office will perform 9-1-1 call taking at the District's facility. The District shall reimburse the County for compensation for each 9-1-1 call operator and 9-1-1 supervisor employed and assigned by the MCSO to perform their duties up to a total of fourteen 9-1-1 call operators and four 9-1-1 supervisors. In addition, the District will pay an administrative fee to the County of five percent of the compensation and benefits package for each employee.

Montgomery County - Montgomery County has agreed to utilize the District's facility for its Sheriff's 9-1-1 call taking and dispatch operations center for a minimum of five years. The District is providing 9-1-1 equipment and networks and the County is providing its own dispatch pertinent equipment, software and services for their use. The County has agreed to provide janitorial services for the Communication Center. In the past, the County and District have shared the costs of such services. The County has also agreed to pay an annual rental fee of \$10 and a pro-rata share of the total utilities for each month that the utilities exceed \$7,500. The District pays the County \$10 per year for the 99-year site lease initiated June 1998.

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

D. Pension Plans

1. Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of over 600 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

2. Benefits Provided

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

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

3. Funding Policy

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

The District contributed using the ADCR of 16.53% for calendar year 2015 and 15.13% for calendar year 2014.

The District adopted the rate of 7% as the contribution rate payable by the employee members for calendar years 2015 & 2014. The District may change the employee

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

contribution rate and the employer contribution rate within the options available in the TCDRS Act.

4. Contributions

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|--------------|--------------|--------------|
| Annual Determined Contribution Cost (ADRC) | \$ 122,594 | \$ 112,923 | \$ 107,115 |
| Actual Contributions Made | \$ (122,594) | \$ (112,923) | \$ (107,115) |
| Percentage of APC Made | 100% | 100% | 100% |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The required contribution rates for fiscal year 2015 were determined as part of the December 31, 2013 and 2014 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2014, also follows:

| Valuation Date | <u>12/31/12</u> | <u>12/31/13</u> | <u>12/31/14</u> |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Actuarial Cost Method | Entry Age | Entry Age | Entry Age |
| Amortization Method | Level Percent of payroll, closed | Level Percent of payroll, closed | Level Percent of payroll, closed |
| Amortization Period in years | 20 years | 20 years | 20 years |
| Asset Valuation Method | 10-year Smoothed Fund | 5-year Smoothed Fund | 5-year Smoothed Fund |
| Actuarial Assumptions: | | | |
| Investment Rate of Return * | 8% | 8% | 8% |
| Projected Salary Increases * | 5.4% | 4.9% | 4.9% |
| * Includes Inflation at stated-rate | 3.5% | 3.0% | 3.0% |
| Cost-of Living Adjustments | 0.0% | 0.0% | 0.0% |

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 5 |
| Inactive employees entitled to but not yet receiving benefits | 13 |
| Active employees | 10 |
| Total | 28 |

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

5. Net Pension Liability

The District's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 3.0% per year |
| Overall payroll growth | 0 - 5.25% per year depending on experience |
| Investment Rate of Return | 8.10%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

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

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

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

| Asset Class | Benchmark | Target Allocation ⁽¹⁾ | Geometric Real Rate of Return (Expected minus inflation) ⁽²⁾ |
|------------------------------------|--|----------------------------------|---|
| US Equities | Dow Jones U.S. Total Stock Market Index | 16.50% | 5.35% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾ | 12.00% | 8.35% |
| Global Equities | MSCI World (net) Index | 1.50% | 5.65% |
| International Equities – Developed | 50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index | 11.00% | 5.35% |
| International Equities – Emerging | 50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index | 9.00% | 6.35% |
| Investment-Grade Bonds | Barclays Capital Aggregate Bond Index | 3.00% | 0.55% |
| High-Yield Bonds | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 3.75% |
| Opportunistic Credit | Citigroup High-Yield Cash-Pay Capped Index | 5.00% | 5.54% |
| Direct Lending | Citigroup High-Yield Cash-Pay Capped Index | 2.00% | 5.80% |
| Distressed Debt | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 6.75% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index | 2.00% | 4.00% |
| Commodities | Bloomberg Commodities Index | 2.00% | -0.20% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 2.00% | 5.30% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index ⁽⁴⁾ | 3.00% | 7.20% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 25.0% | 5.15% |

(1) Target asset allocation adopted at the April 2015 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.7%, per Cliffwater's 2015 capital market assumptions.

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

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

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2015

Discount Rate:

The discount rate used to measure the Total Pension Liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|--|--------------------------------|------------------------------------|------------------------------------|
| Balance at 12/31/13 | \$ 3,670,546 | \$ 2,862,787 | \$ 807,759 |
| Changes for the year: | | | |
| Service Cost | 106,677 | - | 106,677 |
| Interest on total pension liability ⁽¹⁾ | 297,464 | - | 297,464 |
| Effect of economic/demographic gains or losses | 51,647 | - | 51,647 |
| Benefit payments | (102,906) | (102,906) | - |
| Administrative expense | - | (2,309) | 2,309 |
| Member contributions | - | 52,507 | (52,507) |
| Net investment income | - | 191,267 | (191,267) |
| Employer contributions | - | 113,485 | (113,485) |
| Other ⁽²⁾ | - | 516 | (516) |
| Net changes | 352,882 | 252,560 | 100,322 |
| Balance at 12/31/14 | \$ 4,023,428 | \$ 3,115,347 | \$ 908,081 |

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

| 1% Decrease 7.10% | Current Single Rate Assumption 8.10% | 1% Increase 9.10% |
|----------------------|---|----------------------|
| \$ 1,368,809 | \$ 908,081 | \$ 522,750 |

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2015, the District recognized pension expense of \$143,087.

At September 30, 2015, the District reported deferred outflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> |
|---|---|
| Difference between projected and investment earnings | \$ 36,289 |
| Differences between expected and actual economic experience | 34,431 |
| Contributions subsequent to the measurement date | 94,878 |
| Total | <u><u>\$ 165,598</u></u> |

The District reported \$94,878 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2016.

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

| Year ended December 31: | |
|-------------------------|-----------|
| 2015 | \$ 26,288 |
| 2016 | 26,288 |
| 2017 | 9,072 |
| 2018 | 9,072 |
| 2019 | - |
| Thereafter | - |
| | \$ 70,720 |

Supplemental Death Benefits Fund

The District also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas County and District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and to retired employees. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for \$5,000.

The GTLF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GTLF. This report is available at www.tcdrs.org. TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System, P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782.

Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The District contributions to the GTLF for the years ended September 30, 2015, 2014, and 2013, were \$2,801, \$2,758, and \$2,678, respectively, which equaled the contractually required contributions each year.

Schedule of Contribution Rates (*RETIREE-only portion of the rate*)

| Plan/ Calendar Year | Annual Required Contribution (Rate) | Actual Contribution Made (Rate) | Percentage of ARC Contributed |
|------------------------|---|---------------------------------------|----------------------------------|
| 2013 | 0.37% | 0.37% | 100.0% |
| 2014 | 0.37% | 0.37% | 100.0% |
| 2015 | 0.37% | 0.37% | 100.0% |

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

E. Other Post-Employment Benefits

Health Care Benefit Provided by Plan

The District has implemented Government Accounting Standards Board (GASB) Statement 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension (OPEB)" prospectively (no beginning net OPEB obligation). It is a single employer pay-as-you go plan.

In addition to other benefits, the District makes available health care benefits to all qualified employees who retire from the District. The plan provides the same medical coverage to that offered to current employees, dental, vision and life insurance.

A qualified retiree is defined as follows:

- 30 years of service at any age
- Age 60 and 8 years of service
- Rule of 75
- The retiree must have been enrolled in the District's insurance program for 3 years prior to retirement

The percentage of coverage is based on years of service with the District:

- 15 years – 70%
- 25 years – at least age 55 - 100%

Annual Other Post-Employment (OPEB) Cost and Net OPEB Obligation

The employer has elected to calculate the annual required contribution of the employer (ARC) and related information using the Alternative Measurement Method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The Employer's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2015

The annual OPEB cost for the fiscal year ended September 30, 2015, is as follows:

| | |
|--|-------------------------|
| Annual required contribution | \$ 20,824 |
| Interest on OPEB obligation | 3,154 |
| Adjustment to annual required contribution | (2,859) |
| Annual OPEB cost expense | <u>21,119</u> |
| Contributions made | <u>16,736</u> |
| Change in net OPEB obligation | 4,383 |
| Net OPEB Obligation-beginning of year | <u>70,085</u> |
| Net OPEB Obligation-end of year | <u><u>\$ 74,468</u></u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the program, and the net OPEB obligation for 2015 and preceding year are as follows:

| Fiscal Year | Annual OPEB Cost | Employer Contributed | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation | |
|-------------|------------------|----------------------|--|---------------------|-----------|
| | | | | Beginning | Ending |
| 2014 | \$ 20,318 | \$ 5,141 | 25.30% | \$ 54,908 | \$ 70,085 |
| 2015 | 21,119 | 16,736 | 79.25% | 70,085 | 74,468 |

Funded Status and Funding Progress

As of September 30, 2015, the plan assets were \$0, the actuarial accrued liability for benefits was \$273,417, the total unfunded actuarial liability is \$273,417, and the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) is 0%. The covered payroll (annual payroll of active employees covered by the plan) was \$750,101, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A discount rate of 4.50% was used. A general price inflation of 3.00% was assumed. In addition, the Projected Unit Credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at September 30, 2014 was 30 years. As authorized by GASB Statement No. 45, the Alternative Measurement Method with its simplifications of certain assumptions was employed in measuring actuarial accrued liabilities and the ARC.

F. Restatement

Due to the implementation of GASB No. 68, the District restated its beginning net position to properly reflect the net pension liability and deferred outflows of resources as prescribed by this accounting standard. The below table summarizes the changes to net position as a result of this change in accounting method.

The District also restated its beginning net position due to compensated absences owed by the District at September 30, 2014 not being accrued at the prior year-end. The restatement of beginning net position is as follows:

| | Business-type Activities |
|--|-------------------------------------|
| Prior year ending net position as reported | \$ 8,633,233 |
| Compensated balances owed at yearend | (98,905) |
| GASB 68 adjustment for net pension liability | (721,990) |
| Restated beginning net position | <u>\$ 7,812,338</u> |

G. Subsequent Events

In March 2016 the board of managers agreed to participate with Public Safety Answering Point (PSAP) within Montgomery County, Texas in the purchase of equipment, furnishings or services that improve 9-1-1 call taking. The program is available from October 1, 2015 through September 30, 2016. The District will reimburse a total maximum of \$85,000 per PSAP during this period.

Montgomery County Emergency Communication District

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

There were no other material subsequent events through the date the financial statements were issued.

H. New Accounting Pronouncements

The District has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. As part of GASB 68 the District is required to record its net pension liability.

GASB also issued Statement No. 69, entitled *Government Combinations and Disposals of Government Operation*, and GASB Statement No. 70, entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Both statements were adopted this fiscal year but had no effect on these accompanying financial statements.

The, GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; Statement No. 73, entitled, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 76; entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*; and GASB Statement No. 77; entitled, *Tax Abatement Disclosures, which will require adoption in the future, if applicable*. These statements may or will have a material effect on the District's financial statements once implemented. The District will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

REQUIRED SUPPLEMENTARY INFORMATION

Montgomery County Emergency Communication District

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

September 30, 2015

| | | 12/31/2014 ¹ |
|---|----|-------------------------|
| Total pension liability | | |
| Service cost | \$ | 106,677 |
| Interest | | 297,464 |
| Changes in benefit terms | | - |
| Effect of economic/demographic gains or losses | | 51,647 |
| Changes of assumptions | | - |
| Benefit payments | | (102,906) |
| Net change in total pension liability | | 352,882 |
| Total pension liability - beginning | | 3,670,546 |
| Total pension liability - ending (a) | | 4,023,428 |
| Plan fiduciary net position | | |
| Contributions - employer | \$ | 113,485 |
| Contributions - members | | 52,507 |
| Net investment income | | 191,267 |
| Benefit payments | | (102,906) |
| Administrative expenses | | (2,309) |
| Other | | 516 |
| Net change in plan fiduciary net position | | 252,560 |
| Plan fiduciary net position - beginning | | 2,862,787 |
| Plan fiduciary net position - ending (b) | \$ | 3,115,347 |
| Fund's net pension liability - ending (a) - (b) | \$ | 908,081 |
| | | |
| Plan fiduciary net position as a percentage of the total pension liability | | 77.43% |
| Covered employee payroll | \$ | 750,101 |
| Fund's net position as a percentage of covered employee payroll | | 121.06% |

Notes to schedule:

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

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Montgomery County
Emergency Communication District
POST EMPLOYMENT HEALTHCARE BENEFITS
September 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets a | Actuarial Accrued Liability (AAL) Entry Age b | Unfunded AAL (AAL) (b-a) | Funded Ratio a/b | Annual Covered Payroll c | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------------|--------------------------------------|--|-----------------------------------|------------------------|-----------------------------------|---|
| 9/30/2012 | - | 572,212 | 572,212 | 0% | 723,774 | 79% |
| 9/30/2014 | - | 273,417 | 273,417 | 0% | 750,101 | 36% |

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OTHER SUPPLEMENTARY INFORMATION

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Montgomery County Emergency Communication District

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2015

| | <u>Original & Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|--|-------------------------------|---|
| Operating Revenues | | | |
| Service revenues | \$ 4,288,500 | \$ 4,573,832 | \$ 285,332 |
| Total Operating Revenues | <u>4,288,500</u> | <u>4,573,832</u> | <u>285,332</u> |
| Operating Expenses | | | |
| Cost of services | 2,396,400 | 2,500,940 | (104,540) |
| Personnel costs | 1,260,100 | 1,229,959 | 30,141 |
| General and administrative | 560,000 | 404,021 | 155,979 |
| Total Operating Expenses | <u>4,216,500</u> | <u>4,134,920</u> | <u>81,580</u> |
| Nonoperating Revenues (Expenses) | | | |
| Grant (expenses) | (207,500) | (189,210) | 18,290 |
| Capital (expenses) | (962,000) | (820,735) | 141,265 |
| Other income | 2,400 | 25,239 | 22,839 |
| Investment income | 6,000 | 22,771 | 16,771 |
| Total Nonoperating Revenues (Expenses) | <u>(1,161,100)</u> | <u>(961,935)</u> | <u>199,165</u> |
| Change in Net Position | <u>\$ (1,089,100)</u> | <u>(523,023)</u> | <u>\$ 566,077</u> |
| Beginning Net Position | | <u>7,812,338</u> | |
| Ending Net Position - modified | | <u>7,289,315</u> ¹ | |
| Capital outlay | | 820,735 | |
| Depreciation expense | | (433,456) | |
| Ending Net Position | | <u>\$ 7,676,594</u> | |

Notes to Supplementary Information:

¹ Budget presented on modified accrual basis.

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