MONTGOMERY COUNTY
EMERGENCY COMMUNICATIONS DISTRICT

FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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VANWASSEHNOVA AND ASSOCIATES
Certified Public Accountants

MONTGOMERY COUNTY
EMERGENCY COMMUNICATIONS DISTRICT

FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

MONTGOMERY COUNTY
EMERGENCY COMMUNICATION DISTRICT
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MONTGOMERY COUNTY
EMERGENCY COMMUNICATION DISTRICT
List of Officials

Officers & Board Members

President	Paul Virgadamo
Vice-President	Vicky Rudy
Secretary	James Simon
Treasurer	Robert Hudson
Member	Tommy Gage
Ex-Officio Member	John Young

Executive Director

Chip VanSteenberg

MONTGOMERY COUNTY EMERGENCY COMMUNICATION DISTRICT
Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Emergency Communication District's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2013. Please read this in conjunction with the District's financial statements, which begins on page 4.

Financial Highlights
The District's assets increased by $397,748 and liabilities increased by $1,770. Net position increased by $395,978. The District has no long-term debt.

During the year, the District had expenses that were $32,378 more than the prior year. Total revenues were $57,057 less than in fiscal year 2012.

Using This Annual Report
This annual report consists of a series of financial statements. The Statement of Financial Position and the Statement of Revenues, Expenses, and Changes to Net Position provide information about the activities of the District as a whole and present a long-term view of the District's finances.

One of the most important questions asked about the District's finances is, "Has Montgomery County Emergency Communication District improved as a whole as a result of the year's activities?" The Statement of Financial Position and the Statement of Revenue, Expenses, and Changes in Net Position 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 position and changes in it. You can think of the District's net position-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 position is 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 revenue tax base and the services provided, to assess the overall health of the District.

The District as a Whole

The District's total assets increased by $397,748. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

Table 1 - Net Position

	2012	2013
Current Assets	$ 5,629,026	$ 6,311,823
Capital Assets	2,150,263	1,865,214
Total Assets	7,779,289	8,177,037
Liabilities, Current & non-current	80,322	82,092
Net Position - Unrestricted	$ 7,698,967	$ 8,094,945

Net position of the District increased by 5%. ($8,094,945 compared to $7,698,967). Montgomery County Emergency Communication District has no long-term obligations other than future retiree benefits.

Table 2 - Changes in Net Position

	2012	2013
Revenues		
Service revenues	$ 4,441,784	$ 4,388,815
Interest and other revenues	13,167	9,079
Total Revenues	4,454,951	4,397,894
Expenses	3,969,538	4,001,916
Increase in Net Position	$ 485,413	$ 395,978

Service revenues for the District decreased by 1%, while total expenses increased by 1%.

Budgetary Highlights

Revenues were $314,494 higher than budgeted and expenses were $1,047,593 less than budgeted. Capital expenditures of $1,090,000 were not all made in 2013. Overall, on a budgetary basis, the District had a positive variance of $1,362,087.

Capital Assets
At the end of September 2013, the District had $1,865,214, net of accumulated depreciation, invested in a broad range of capital assets including equipment, buildings and vehicles. This amount represents a net decrease of $285,049 or 15%, from last year. Current year depreciation expense is $408,208.

Table 3 - Capital Assets at Year-end

	2012	2013
Building	$ 1,916,287	$ 1,916,287
Equipment	2,303,762	2,363,866
Vehicles	45,732	45,732
Furniture & Fixtures	251,939	314,994
Less Accumulated Depreciation	(2,367,457)	(2,775,665)
Total Assets	$ 2,150,263	$ 1,865,214

The District's fiscal year 2014 budget calls for it to spend $1,068,600 for capital expenditures.

Economic Factors and Next Year's Budget
The District's appointed officials and citizens considered many factors when setting the 2014 fiscal year budget. The economy, employment growth, cell phone and VoIP use and other factors were all a part of the factors used. Revenues are budgeted at $4,159,800 which is a $238,094 decrease from fiscal 2013 actual amounts. Operating expenses are budgeted at $4,115,100. Capital expednitures are estimated to be $1,517,300.

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 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 Executive Director at 150 Hilbig Road in Conroe, Texas.

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 of the District, as of September 30, 2012 and 2013 and the respective changes in financial position and cash flows, thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the District's pension plan schedule of actuarial liabilities and funding progress 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 Supplemental Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

VanWassehnova & Associates

VanWassehnova & Associates
January 10, 2014

MONTGOMERY COUNTY
EMERGENCY COMMUNICATION DISTRICT
Statements of Net Position
Propretary Fund Balance Sheet
As of September 30, 2012 & 2013

Assets

	2012	2013
Current Assets		
Cash and Cash Equivalents	$ 5,629,026	$ 5,821,761
Investments	-	490,062
Capital Assets		
Property & Equipment	4,517,720	4,640,980
Less: Accumulated Depreciation	(2,367,457)	(2,775,766)
Net Fixed Assets	2,150,263	1,865,214
Total Assets	$ 7,779,289	$ 8,177,037

Liabilities and Net Position

Current Liabilities		
Accrued Wages & Payroll Taxes	$ 25,414	$ 27,184
Long-Term Liabilities		
Post Employment Benefits	54,908	54,908
Total Liabilities	80,322	82,092
Net Position - Unrestricted	7,698,967	8,094,945
Total Liabilities and Net Position	$ 7,779,289	$ 8,177,037

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

MONTGOMERY COUNTY
EMERGENCY COMMUNICATION DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Years Ending September 30, 2012 & 2013

	2012	2013
Operating Revenues		
Service Revenues	$ 4,441,784	$ 4,388,815
Total Operating Revenues	4,441,784	4,388,815
Operating Expenses	3,969,538	4,001,916
Operating Income	472,246	386,899
Nonoperating Revenue		
Interest	6,651	6,788
Miscellaneous	6,516	2,291
Total Nonoperating Revenues	13,167	9,079
Change in net position	485,413	395,978
Total net position-beginning	7,213,554	7,698,967
Total net position-ending	$ 7,698,967	$ 8,094,945

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

MONTGOMERY COUNTY
EMERGENCY COMMUNICATION DISTRICT
Statements of Cash Flows
Proprietary Fund
For the Years Ending September 30, 2012 & 2013

	2012	2013
Cash Flows From Operating Activities		
Cash Received from Fees	$ 4,441,784	$ 4,388,815
Cash Payments for Goods and Services	(2,824,693)	(2,898,289)
Cash Payments to Employees for Services	(708,992)	(693,648)
Net Cash Provided by Operating Activities	908,099	796,878
Cash Flows From Noncapital Financing Activities		
Other Revenue	6,516	2,291
Cash Flows From Capital and Related Financing Activities		
Acquisition of Capital Assets	(505,114)	(123,160)
Purchase of Investments	-	(490,062)
Cash Flows From Investing Activities		
Interest Received	6,651	6,788
Net Increase in Cash and Cash Equivalents	416,152	192,735
Cash and Cash Equivalents - Beginning of Year	5,212,874	5,629,026
Cash and Cash Equivalents - End of Year	$ 5,629,026	$ 5,821,761

Reconciliation of operating income to net cash provided by operaging activitities - Operating Income	$ 472,246	$ 386,899
Adjustments to reconcile operating income to net cash net cash provided by Operating Activities:		
Depreciation	434,740	408,208
Decrease (Increase) in Accounts Receivable	12,460	-
Increase (Decrease) in Accounts Payable	(25,000)	-
Increase (Decrease) in Accrued Wages	8,274	-
Increase (Decrease) in Payroll Liabilities	5,379	1,771
Total Adjustments	435,853	409,979
Net Cash Provided by Operating Activities	$ 908,099	$ 796,878

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

MONTGOMERY COUNTY
EMERGENCY COMMUNICATION DISTRICT
Notes to the Financial Statements
September 30, 2013

Note 1 - District

The Montgomery County Emergency Communication District (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.

Note 2 - Summary of Significant Accounting Policies

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

The District applies all applicable GASB pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

A. Implementation of New Standards

In the current year, the District implemented the following new GASB pronouncements.

GASB Statement No. 59, *Financial Instruments Omnibus*, which 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 statement amends several pronouncements, the only ones of which applicable to the District are GASB Statement No 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. See Note 3 for applicability and disclosure.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. This statement has been implemented by the District with no significant effect on the financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, enhances the usefulness of the financial statements by organizing all sources of generally accepted accounting principles for state and local governments into a single source in an effort to reduce the complexity of locating and using authoritative literature needed to prepare State and local government financial reports. This statement is intended to enhance the usefulness of the GASB's Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature, the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- FASB Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure

This statement is effective for financial statement periods beginning after December 15, 2011. Management expects no changes in the District's financial report as a result of implementing this statement.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. This statement provides a new statement of net position format to report all assets, deferred inflows and outflows of resources, liabilities, and net position (which is the residual amount of the other elements). The statement requires that deferred inflows and outflows of resources be reported separately from assets and liabilities and discusses how net position (no longer net assets) should be displayed. Ultimately, this statement will serve to standardize the presentation of deferred balances and their effects on a government's net position and address uncertainty related to their display. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011. This statement has been implemented by the District with significant effect on the presentation of the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows and also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for financial statement periods beginning after December 15, 2012, but early implementation is encouraged. Given the District's implementation of GASB Statement No. 63 and the presence of deferred inflows and outflows of resources, the District opted to early implement this statement. This statement has been implemented by the District with significant effect on the presentation of the financial statements.

B. Reporting Entity

The District has adopted GASB Statement No. 14, *The Financial Reporting Entity* (Statement No. 14). In accordance with Statement No. 14, a financial reporting entity consists of the primary government, Districts for which the primary government is financially accountable, and other Districts for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is considered to be the primary government as well as the reporting entity. There are no other Districts of the District which meet the criteria for inclusion herein as part of the financial reporting entity.

C. Financial Statement Presentation

These financial statements include implementation of GASB Statement No. 63 and GASB 65, both of which amend GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement No. 34) and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 34, as amended, includes the following:

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

Statement No. 34, as amended by Statement No. 63, established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position. Net position represents the difference between assets and liabilities, the accumulation of revenues in excess of expenses since inception of the District. Net investment in capital assets 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 position is 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.

D. Fund Financial Statements and Measurement Focus Basis of Accounting

The District presents its financials as an enterprise fund. Enterprise funds are proprietary funds used to account for operations in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned, and expenses are recognized and recorded when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers on their telecommunications services bills. Revenue recognition takes into account a sixty-day lag, allowed by law, for telephone companies to remit their monthly collections. Operating expenses for the District include the cost of network connectivity services, operation, and maintenance services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District has no other funds, collects no taxes, and as such, will present only the Fund financial statements. Because the District presents only an enterprise fund, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, does not apply so is properly excluded from the District's financial statements.

E. Fund Equity

Fund equity is classified as net position and is displayed into three components:

- Net investment in capital assets, net of related debt - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - This component of net position consists of constraints placed on 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 "invested in capital assets, net of related debt."

In circumstances when an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the District's policy is to apply restricted net position first.

F. Budget

The District established its fiscal year as the twelve month period beginning October 1. An unappropriated budget is adopted for the enterprise fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized. The supplemental schedule to the financial statements, Budgetary Comparison, presents a comparison of budgetary data to actual results.

G. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires District's management to make estimates and assumptions about future events that may affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the allowance for doubtful accounts, the lives of fixed assets, pension assets and obligations, and contingencies. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Adjustments to such estimates and assumptions are made when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

H. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting,* requires that investments having a maturity date of over three months not be defined as cash equivalents and are instead classified as investments.

I. Investments

The District has investments in "TexPool" holdings and fixed income bonds. The District considers and reports its investments in TexPool as part of cash. Fixed income bonds are considered and reported as investments and are valued at the current share price.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, as amended by, GASB Statement No. 59, 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 2a-7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

Unrealized gains and losses, arising from increases or decreases in the current market values from the beginning of the year to the end of the year, are presented as net appreciation (depreciation) in fair value of investments on the statements of changes in plan net assets, along with gains and losses realized on sales of investments. Purchases and sales of investments are recorded on the trade date. Interest income and income from other investments is recorded on the accrual basis.

Following is a description of the valuation methodologies used for investments measured at fair value:

- Fixed Income Bonds: Valued at current share price, which approximates fair value.

In accordance with Financial Accounting Standards Board (FASB), *Fair Value Measurements and Disclosures (ASC 820),* formerly FAS 157, assets and liabilities measured at fair value are categorized into the following fair value hierarchy:

- Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market that the Plan has the ability to access at the measurement date.

- Level 2 – Fair value is based on quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset of liability, either directly or indirectly, for substantially the full term of the asset of liability. Pricing models are utilized to estimate fair value for certain assets and liabilities categorized in Level 2.

- Level 3 – Fair value is based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect managements' judgment about the assumptions that a market participant would use in pricing the investment and are based on the best available information, some of which may be internally developed.

The level of fair value hierarchy with which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

The methods described above may produce a fair value that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while management of the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the District's investment as of September 30, 2013:

	Level 1	Level 2	Level 3	Total
Ally Bank Certificate of Deposit	-	$ 245,750	-	$ 245,750
Discover Bank Certificate of Deposit	-	244,312	-	244,312

J. Deposit and Investment Risks

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits, which exceed federally insured limits ($250,000 for 2013), may not be returned to it. The District's investment policy requires that all deposited funds be insured by the Federal Depository Insurance Coverage (FDIC), or 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 custodial credit risk on cash. The cash held at local banks is insured and is collateralized with securities held by the District or its agent in the District's name.

In the case of investments, custodial credit risk 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 possession of an outside party. According to the District's investment policy, the District shall contract with a financial institution for the safekeeping of securities owned by the District as part of its investment portfolio. Both the TexPool and fixed income bond investments are held by the Federal Reserve or by the custodian. The investments are fully collateralized by the FDIC or by the institution holding the funds.

In the case of investments, credit risk is the risk that an insurer of borrower will default on it's debt by failing to make payments which it is obligated to do. The TexPool portfolio is designed and managed to ensure that it maintains its AAAm rating (or equivalent) by a nationally recognized statistical rating agency. As of September 30, 2013, Standard & Poor's rates TexPool AAA. For the fixed income bonds, the safety of a fixed-income investor's principal depends on the issuer's credit quality and ability to meet its financial obligations. Issuers with lower credit ratings usually have to offer investors higher yields to compensate for the additional credit risk. A change in either the issuer's credit rating or the market's perception of the issuer's business prospects will affect the value of its outstanding securities.

For the fixed income bonds, interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The District's Investment Policy sets limits on exposure to certain securities as a way of managing its exposure to potential fair value losses arising from future changes in interest rates. The TexPool investments are not subject to interest rate risk.

For the fixed income bonds, purchasing power risk is the risk that rising inflation will have a negative impact on real rates of return, because inflation reduces the purchasing power of the investment income and principal.

The District's Investment Policy sets limits on exposure to certain securities as a way of managing its exposure to potential fair value losses arising from changes to inflation. The TexPool investments are not subject to purchasing power risk.

For the fixed income bonds, price risk is the risk that if the District plans to sell the investment prior to its maturity, the price received on the available market may be more or less than the original purchase price. The District's current plans are to hold these fixed income investment to maturity. The TexPool investments are not subject to price risk.

K. 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 the construction of governmental fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The cost of assets sold, retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in operations. 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.

Depreciation has been calculated on the asset's estimated useful life for each class of depreciable property using the straight-line method as follows:

Building	30 years
Furniture and fixtures	7 years
Office equipment	5 years
Vehicles	5 years

L. Compensated Absences

The District maintains formal programs for vacation and compensatory time benefits. District policy to permits eligible employees to accumulate earned but unused vacation and compensatory time benefits. The unused vacation and compensatory time benefit is considered a vested employee benefit and may be paid to employees upon separation from service with the District. There is no liability for unpaid accumulated sick leave because the District does not have a policy to pay any such amounts when employees separate from service with the District.

The estimated amount of compensation for services provided that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it upon maturity. In recognition of the resulting obligation, the District has accrued a liability for earned but unused vacation and compensatory time benefits, having determined that payment of such benefit is probable and having developed a reasonable estimate based upon current salary costs and annual leave balances as of September 30, 2013. The liability for compensated absences at year end was $14,556.

M. Income Tax

Montgomery County Emergency Communication District was created under the laws of the State of Texas and is not a taxpaying entity. The District is not required to pay income taxes or file any returns and has made no provision for federal income taxes in the accompanying financial statements.

Note 3 - Cash, Cash Equivalents and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The District's investment policy requires funds on deposit at the depository bank to be collateralized by securities.

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 were adequately secured at all times during the year.

At September 30, 2013, all of the District's cash, cash equivalents, and investments were insured or registered for which the securities are held by the government agents in the District's name and included cash and investments of $6,311,823, which includes an overdraft balance of $35,301 at a local banking institution.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. All aspects of its investment management are designed to ensure safety of principal, adequate liquidity to meet cash needs, and reasonable yield commensurate with the preservation of principal and liquidity. The District is authorized to invest in the following:

- Direct obligations of the U.S. Government, certain U.S. agencies, and the State of Texas
- Certificates of deposit and money market mutual funds
- Investment pools

The District's Board of Trustees has adopted an Investment Policy (Policy) with the objective to invest the District's assets in a manner consistent with generally accepted standards of fiduciary responsibility. The Board shall manage the investment program of the District in compliance with all applicable Federal and State statutes and regulations. The Policy sets forth the factors involved in the management of investment assets for the District. The safeguards which would guide a prudent man will be observed. Safety of principal shall be emphasized and the investments will be diversified so as to avoid the risk of large loss. All transactions, including purchases and sales, investment selection and implementation of investment strategies, are subject to compliance with the District's Investment Policy and are undertaken on behalf of the District will be for the sole benefit of the District.

The District's investments are managed by the Board of Directors who have discretionary authority over the assets managed by them, within the investment guidelines established by the Investment Policy. The investments of the District are held by the District's custodian and are accessible by the District and it's Board of Directors.

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. 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. The Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Lehman Brothers Inc. and Federated Investors, Inc. under an agreement with the Comptroller, acting on behalf of the Trust Company.

Note 4 - Donated Services
No amounts have been reflected in the financial statements for donated services in as much as no objective basis is available to measure the value of such services. However, the Board of Managers and District Officers have donated significant amounts of their time for the benefit of the District.

Note 5 - Addressing Costs
Beginning in 1991, the District began the process of updating addresses in Montgomery County to comply with Senate Bill 1091. This Bill grants authority to the Commissioners' Court to establish standards for rural addressing and to assign street names and numbers. In order for emergency agencies to locate specific addresses, it was necessary to assign house numbers and street names in unincorporated areas. Costs incurred by the District on behalf of Montgomery County for fiscal years ending September 30, 1995 through 2012 were $4,457,713 and for fiscal year ending September 30, 2013 was $195,250.

Note 6 - Facilities
During the year ended September 30, 2000, the District completed construction of a 17,500 square foot building that now houses the operations of the District. The facility is being shared with Montgomery County Sheriff's Department and Montgomery County Hospital District. Montgomery County owns the land and they have leased this land to the District for 99 years at $10 per year.

Note 7 – Capital Assets
A detail of the District's fixed assets and related accumulated depreciation as of September 30, 2013 is as follows:

Assets being depreciated	Balance 9-30-12	Increases	Decreases	Balance 9-30-13
Building	$ 1,916,287	$ -	$ -	$ 1,916,287
Equipment	2,303,762	60,104	-	2,363,866
Furniture & Fixtures	251,939	63,055	-	314,994
Vehicles	45,732	-	-	45,732
Total	4,517,720	123,159	-	4,640,879
Less accumulated depeciation				
Building	(833,626)	(64,400)	-	(898,026)
Equipment	(1,250,223)	(330,114)	-	(1,580,337)
Furniture & Fixtures	(251,939)	(9,007)	-	(260,946)
Vehicles	(31,669)	(4,687)	-	(36,356)
Total	(2,367,457)	(408,208)	-	(2,775,665)
Total Net Capital Assets	$ 2,150,263	$ (285,049)	$ -	$ 1,865,214

Note 8 - Operating Leases

The District has entered into an operating lease agreement for office equipment. The lease term is for 48 months beginning April 2012. The monthly payments are $340. Minimum payments are $4,080 for the years ending September 30, 2014 and 2015 and $2,040 for the year ending September 30, 2016.

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

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 taker 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 takers 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.

The Woodlands Fire Department - The District and The Woodlands Fire Department have agreed that The Woodlands Fire Department will use the back-up Communications Center mentioned below and will provide the necessary equipment for its operations. The Woodlands Fire Department will reimburse the District for utilities.

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.

Note 10 - Employee Pension Plan

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.

The plan provisions are adopted by the governing body of the District within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years 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 the District.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the 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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy - The District has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 15.40% thru December 31, 2012 and 15.59% thereafter.

The deposit rate payable by the employee members for calendar years 2012 & 2013 was 7% as adopted by the District. The District, within the options available in the TCDRS Act, may change the employee contribution rate.

Annual Pension Cost - For the District's accounting year ended September 30, 2012, the annual pension cost for the TCDRS plan for its employees was $106,218 and the actual total contributions were $155,268. The annual pension cost for the year ended September 30, 2013 was $107,115 and the total contributions were $155,429.

Note 11 - Other Post Employment Benefits

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 OPEB Cost and Net OPEB Obligation

The District 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 100 total plan members. The employer's annual other OPEB cost (expense) is calculated based on the ARC. The ARC represents a level of funding that, in paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Funded Status and Funding Progress

As of September 30, 2011, (the date of the most recent computation) the plan assets were $-0-, the actuarial accrued liability for benefits was $572,212, the total unfunded actuarial liability is $572,212, and the actuarial value of the assets as a percentage of the actuarial accrued liability (funded ratio) is 0%. The covered payroll was $656,630 and the ration of unfunded actuarial accrued liability to the covered payroll was 87%. 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.

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, 2011 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.

Development of the Annual OPEB Cost and Net OPEB Obligation

Employer FYE September	2011
Annual Required Contribution	$ 68,291
Net OPEB Obligatin (NOO) at beginning of year	-
Interest on Net OPEB Obligation (NOO)	-
Adjustment to ARC	-
Annual OBEB Cost (expense)	68,921
Employer Contributions Made	(14,013)
Increase in NOO	$ 54,908
Net OPEB Obligation at end of year	$ 54,908

The Employer's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Schedule of Employer Contributions

Fiscal Year Ending	September 2011
Annual OPEB Cost	68,291
Amount contributed	14,013
Percentage contributed	20%
Net OPEB Obligation	54,908

Note 12 - Risk Management

The District uses a number of approaches to decrease risks and protect against losses to the District, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge.

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injury and death; and natural disasters for which the District participates, for which commercial insurance is purchased. The District has no additional risk or responsibility outside of the payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past several years.

The District owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The District is insured as to its own property losses, and the liability of loss to others.

Note 13 - Contingent Liabilities

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. No claim liabilities were made or reported during the fiscal year ending September 30, 2013.

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs may be subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of District's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Note 14 - New Accounting Pronouncements
The Governmental Accounting Standards Board (GASB) has issued several new statements. A listing follows of those that apply to the District. These statements will be implemented as required by the GASB.

GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* an amendment of GASB Statement Nos. 25 and 50 (as it relates to pension plans that are administered through trusts). The requirements of this Statement will improve financial reporting by state and local governmental pension plans through improved measurement of the net pension liability and improved notes to the financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions administered through pension trusts. The requirements of this Statement will improve financial reporting through enhanced note disclosures and schedules of required supplementary information. The provisions of this statement are effective for financial statement periods beginning after June 15, 2014. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Note 15 - Subsequent Events
The District has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended September 30, 2013 through January 10, 2014, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

MONTGOMERY COUNTY
EMERGENCY COMMUNICATION DISTRICT
Budgetary Comparison
Proprietary Fund
For the Year Ending September 30, 2013

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues				
Service Revenues	$ 4,073,700	$ 4,073,700	$ 4,388,815	$ 315,115
Interest Income	3,700	3,700	6,788	3,088
Other Income	6,000	6,000	2,291	(3,709)
Total Revenues	4,083,400	4,083,400	4,397,894	314,494
Expenses				
General Government	4,061,360	4,061,360	3,980,607	80,753
Capital Purchases	1,090,000	1,090,000	123,160	966,840
Total Expenses	5,151,360	5,151,360	4,103,767	1,047,593
Revenues Over Expenses	$ (1,067,960)	$ (1,067,960)	$ 294,127	$ 1,362,087

MONTGOMERY COUNTY EMERGENCY COMMUNICATION DISTRICT
Pension Plan
Schedule of Actuarial Liabilities and Funding Progress

	2012	2013
GASB 27 Calculation Information		
GASB 27 compliant contribution rate	14.95%	15.21%
Assumed rate on employer funds	9.00%	9.00%
Actuarial amortization factor	10.23%	10.23%
Contribution rate	14.95%	15.21%

Actuarial information			
Actuarial valuation date	12/31/10	12/31/11	12/31/12
Actuarial cost method	entry age	entry age	entry age
Amortization method	level-% of payroll-closed	level-% of payroll-closed	level-% of payroll-closed
Amortization period in years	20	20	20
Asset valuation method			
Subdivision Accumulation Fund	10 year Smoothed Value	10 year Smoothed Value	10 year Smoothed Value
Employees Saving Fund	Fund Value	Fund Value	Fund Value
Assumptions:			
Investment return	8%	8%	8%
Projected salary increases	5.4%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost of living adjustments	0%	0%	0%

Schedule of Funding Information			
Actuarial Valuation Date	12-31-10	12-31-11	12-31-12
Actuarial Value of Assets	$ 1,719,427	$ 1,941,865	$ 2,084,905
Actuarial Accrued Liability	2,128,817	2,354,404	2,528,166
Percentage Funded	80.8%	82.5%	82.5%
Under (Over) Funded Actuarial Accrued Liability (UAAL)	409,390	412,539	443,261
Annual Covered Payroll	665,366	657,429	723,774
UAAL as a Percentage of Covered Payroll	61.5%	62.8%	61.2%

OTHER SUPPLEMENTAL INFORMATION

MONTGOMERY COUNTY
EMERGENCY COMMUNICATION DISTRICT
Statements of Expenses
Proprietary Fund
For the Years Ending September 30, 2012 & 2013

Operating Expenses	2012	2013
Interlocal - City & County	$ 1,229,887	$ 1,313,988
Salaries	708,992	693,648
Telephone Company Contract Services	420,547	459,811
Depreciation	434,740	408,208
911 System Project	354,521	356,247
Insurance & Employee Benefits	201,764	187,130
Retirement	106,218	107,115
Other Contract Services	123,750	87,500
Utilities & Phone	74,953	77,598
Mapping Projects	49,828	57,434
Legal & Audit	80,167	55,163
Payroll Taxes	54,907	51,705
Facility & Building Supplies	61,918	41,253
Public Education	23,904	38,074
Travel, Auto & Mileage	12,099	27,110
Professional Development	4,947	12,397
Office Supplies	7,895	8,911
Bank Charges	4,504	5,262
Equipment Rent	3,511	4,724
Equipment Repairs & Maintenance	4,781	3,303
Operating Supplies	5,101	2,908
Records Management	604	2,427
Total Operating Expenses	$ 3,969,538	$ 4,001,916