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**Galveston County Emergency Communication District
Financial Statements
Year Ended December 31, 2014**

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Galveston County Emergence Communication District

Table of Contents

Financial Section

Independent Auditor's Report	1-2
Management Discussion and Analysis	3-4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	5
Statement of Activities	6
Fund Financial Statements:	
Balance Sheet-Governmental Funds	7
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	8
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	10
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-General Fund	11
Notes to Financial Statements	12-24
Required Supplementary Schedules and Other Information	
Schedules of Funding Progress	25
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Galveston County Emergency Communication District

We have audited the accompanying financial statements of the governmental activities and the governmental fund information of Galveston County Emergency Communication District as of and for the year ended December 31, 2014, 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental fund information of the Galveston County Emergency Communication District, as of December 31, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 4 and 11 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.

Katherine Overbeck Maxwell, CPA, PLLC

Galveston, Texas

May 12, 2015

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Galveston County Emergency Communication District
Management's Discussion and Analysis
December 31, 2014

As management of the Galveston County Emergency Communication District, (GCECD), we offer readers of the District's financial statements this overview and analysis of the District's financial activities for the fiscal year ended December 31, 2014.

Financial Highlights

During the fiscal year 2014, the District's operating expenses were \$1,550,238 more than the operating income in the fund Financial Statements, with a fund balance of \$3,099,782. The government-wide financial statements include net assets of \$5,204,993, total program revenues of \$1,981,179 and total operating expenses of \$2,325,105 for net loss of \$343,926.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements.

Government-Wide Financial Statements – The government-wide financial statements, which begin on page 5 of this report, are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods, (e.g., earned but unused compensated absences).

Fund Financial Statements – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a district's near-term financing requirements.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 - 24 of this report.

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Comparison in Government-Wide Financial Statements

The total assets for the District were \$5,743,261 at Fiscal Year End of 2014, compared to \$6,089,227 at FYE 2013. This includes capital assets net of accumulated depreciation. For FYE 2014, the total liabilities were \$538,268 making the total net assets of \$5,204,993. The total liabilities for FYE 2013 were \$540,308 making the total net assets of \$5,548,919.

Capital Assets

At Fiscal Year End of 2014, the District had \$2,643,476 net of accumulated depreciation, invested in capital assets. This includes office equipment, vehicles, E9-1-1 equipment and equipment used on the Regional Trunked Radio System. Regional Trunked Radio System equipment of \$855,478 and Enhanced 9-1-1 Equipment of \$811,310 were purchased and \$65,290 was invested in new tower sites during the year to improve the reliability and interoperability of the systems. Depreciation of \$496,359 was recognized. \$1,276,752 in fully depreciated equipment was retired from service during the year.

Analysis of Significant Budget Variances

The actual deficit of revenues over expenditures was \$1,550,238 compared to budget surplus of \$32,463 resulting in a difference of \$1,582,701 from the budgeted amount. Revenues were over budget by \$77,703. Expenses excluding capital equipment outlays were under budget by \$21,674. Capital Outlays for equipment exceeded the budgeted amount by \$1,682,078.

Economic Factors and Next Year's Budget and Rates

The projected revenue for fiscal year 2015 shows an increase of 2.07% compared to the budget for fiscal year 2014. The decrease is primarily due to a projected increase in 9-1-1 fees.

Projected expenses for fiscal year 2015 show an increase of .06% over the budget for fiscal year 2014. The total expenses were increased by \$1,133.

Capital expenditures are budgeted for \$30,000 to add Public Safety answering positions at the Galveston Police Department. With the capital expenditures, there is a budgeted net increase to reserves of \$110,782 for 2015.

The routine duties of the District involve assuring the 9-1-1 network is functional and the Customer Premise Equipment (CPE) is operating properly. The operation of the Regional Trunked Radio System is also a responsibility of the District.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Executive Director at 1353 FM 646 Road West, Suite 101 in League City, Texas.

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Basic Financial Statements

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Government -Wide Financial Statements

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**Galveston County Emergency Communication District
Statement of Net Assets
December 31, 2014**

Assets	
Cash and Cash Equivalents	\$ 22,512
Certificates of Deposit	2,926,233
Accounts Receivable	93,643
Accrued Interest Receivable	731
Prepaid Expenses	56,666
Capital Assets, Net Accumulated Depreciation	<u>2,643,476</u>
Total Assets	<u>5,743,261</u>
Liabilities	
Accounts Payable	3
Noncurrent Liabilities	
Due in More Than One Year	
Compensated Absences	204,116
Net OPEB Obligation	<u>334,149</u>
Total Liabilities	<u>538,268</u>
Net Assets	
Investments in Capital Assets, Net of Related Debt	2,643,476
Unrestricted	<u>2,561,517</u>
Total Net Assets	<u>\$ 5,204,993</u>

The accompanying notes are an integral part of these financial statements

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**Galveston County Emergency Communication District
Statement of Activities
Year Ended December 31, 2014**

Expenses		
System Operating Expenses	\$	174,027
Wireless and Data Base Management		32,391
PSAP Equipment Maintenance		15,007
CPE Maintenance		170,638
Payroll and Related Expenses		949,402
Office Supplies and Equipment		7,886
Postage		932
Rent		20,000
Utilities, Administrative and RTRS		71,705
Education and Seminars		21,570
Regional and State Meetings		7,580
Insurance		119,782
Professional Memberships and Services		34,720
Promotions and Public Information		11,209
Communications		13,372
Training and Training Library		300
Vehicle Allowance/Mileage Expenses		20,398
RTRS Maintenance Agreement		106,335
Operational and RTRS Contingency		9,556
RTRS Tower Rental		41,936
Depreciation		<u>496,359</u>
Total Expenses		<u>2,325,105</u>
Revenues		
Service Fees		1,521,364
Inter-local Agreements		448,155
Interest Income		11,620
Other Revenue		<u>40</u>
Total Revenues		<u>1,981,179</u>
Change in Net Assets		<u>(343,926)</u>
Net Assets Beginning of Year		<u>5,548,919</u>
Net Assets End of Year	\$	<u><u>5,204,993</u></u>

The accompanying notes are an integral part of these financial statements

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Fund Financial Statements

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**Galveston County Emergency Communication District
Balance Sheet
Governmental Funds
December 31, 2014**

	<u>General Fund</u>
Assets	
Cash and Cash Equivalents	\$ 22,512
Certificates of Deposit	2,926,233
Accounts Receivable	93,643
Accrued Interest Receivable	731
Prepaid Expense	<u>56,666</u>
Total Assets	<u><u>\$ 3,099,785</u></u>
Liabilities and Fund Balances	
Liabilities	
Accounts Payable	\$ <u>3</u>
Total Liabilities	<u>3</u>
Fund Balance	
Nonspendable	
Prepaid Assets	56,666
Assigned	
Catastrophic Events	600,000
Unassigned	<u>2,443,116</u>
Total Fund Balance	<u>3,099,782</u>
Total Liabilities and Fund Balance	<u><u>\$ 3,099,785</u></u>

The accompanying notes are an integral part of these financial statements

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**Galveston County Emergency Communication District
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Assets
December 31, 2014**

Total Fund Balance, Governmental Funds	\$	3,099,782
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital Assets Used in Governmental Activities are not Financial Resources and, therefore, are not Reported in the Fund		2,643,476
Noncurrent Liabilities of Governmental Activities are not Financial Resources and, therefore are not Reported in the Funds		
Compensated Absences		(204,116)
Estimated Net OPEB Obligation		<u>(334,149)</u>
Net Assets of Governmental Activities	\$	<u><u>5,204,993</u></u>

The accompanying notes are an integral part of these financial statements

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**Galveston County Emergency Communication District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2014**

	<u>General Fund</u>
Revenues	
Service Fees	\$ 1,521,364
Inter-local Agreements	448,155
Interest Income	11,620
Other Revenue	<u>40</u>
Total Revenues	<u>1,981,179</u>
Expenditures	
Current	
System Operating Expenses	174,027
Wireless and Database Management	32,391
PSAP Equipment Maintenance	15,007
CPA Maintenance	170,638
Payroll and Related Expense	919,995
Office Supplies and Equipment	7,886
Postage	932
Rent	20,000
Utilities, Administrative and RTRS	71,705
Education and Seminars	21,570
Regional and State Meetings	7,580
Insurance	119,782
Professional Memberships and Services	34,720
Promotions and Public Information	11,209
Communications	13,372
Training and Training Library	300
Vehicle Allowance/Mileage Expenses	20,398
RTRS Maintenance Agreement	106,335
Operational and RTRS Contingency	9,556
RTRS Tower Rental	41,936
Capital Outlay	1,732,078
Total Expenditures	<u>3,531,417</u>
Net Change in Fund Balance	(1,550,238)
Fund Balance, Beginning of Year	<u>4,650,020</u>
Fund Balance, End of Year	<u>\$ 3,099,782</u>

The accompanying notes are an integral part of these financial statements

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**Galveston County Emergency Communication District
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Fund
to the Statement of Activities
Year Ended December 31, 2014**

Net Change in Fund Balance \$ (1,550,238)

Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Capital Outlays are Reported as Expenditures in
Governmental Funds. However, in the Statement
of Activities, the Cost of Capital Assets is Allocated
over Their Estimated Useful Lives as Depreciation
Expense. In the Current Period, These Amounts are:

Capital Outlay	1,732,078
Depreciation Expense	(496,359)

Some Items are Reported in the Statement of Activities
Do not Require the Use of Current Financial Resources
and, therefore, are not Reported as Expenditures in
Governmental Funds. This Activity Consists of:

Increase in Compensated Absences	(5,302)
Increase in Estimated Net OPEB Obligation	<u>(24,105)</u>

Change in Net Assets of Governmental Activities \$ (343,926)

The accompanying notes are an integral part of these financial statements

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**Galveston County Emergency Communication District
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
Year Ended December 31, 2014**

	<u>Actual</u>	<u>Budget</u>	<u>(Unfavorable) Favorable Variance</u>
Revenues			
Service Fees	\$ 1,521,364	\$ 1,446,176	\$ 75,188
Inter-local Agreement	448,155	448,000	155
Interest Income	11,620	9,050	2,570
Other Revenue	40	250	(210)
	<u>1,981,179</u>	<u>1,903,476</u>	<u>77,703</u>
Total Revenues			
Expenditures			
Current			
System Operating Expenses	174,027	178,861	4,834
Wireless and Database Management	32,391	41,920	9,529
PSAP Equipment Maintenance	15,007	47,638	32,631
CPE Maintenance	170,638	166,637	(4,001)
Payroll and Related Expenses	919,995	763,037	(156,958)
Office Supplies and Equipment	7,886	18,000	10,114
Postage	932	1,000	68
Rent	20,000	20,000	0
Utilities, Administrative and RTRS	71,705	84,446	12,741
Education and Seminars	21,570	49,025	27,455
Regional and State Meetings	7,580	22,950	15,370
Insurance	119,782	112,474	(7,308)
Professional Memberships and Services	34,720	37,000	2,280
Promotions and Public Information	11,209	15,000	3,791
Communications	13,372	13,765	393
Training and Training Library	300	1,000	700
Vehicle Allowance/Mileage Expenses	20,398	27,640	7,242
RTRS Maintenance Agreement	106,335	164,500	58,165
Operational and RTRS Contingency	9,556	20,000	10,444
RTRS Tower Rental	41,936	36,120	(5,816)
Capital Outlay	1,732,078	50,000	(1,682,078)
	<u>3,531,417</u>	<u>1,871,013</u>	<u>(1,660,404)</u>
Total Expenditures			
Net Change in Fund Balance	\$ <u>(1,550,238)</u>	\$ <u>32,463</u>	\$ <u>(1,582,701)</u>

The accompanying notes are an integral part of these financial statements

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Notes to Financial Statements

Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Galveston County Emergency Communication District (District) was authorized by the Emergency Telephone Number Act of the Texas Legislature. The District was created by a referendum held on November 3, 1987, in Galveston County for the establishment of enhanced 9-1-1 emergency telephone service. The cities of Friendswood and League City have opted not to participate with Galveston County District. The District commenced collection of the 9-1-1 service fee on December 1, 1988.

Principles Determining Scope of Reporting Entity

The financial statements of the Galveston County Emergency Communication District consist only of the funds and account groups of the District. The District has no oversight responsibility of any other governmental entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements include both government-wide and fund financial statements. The focus of the government-wide financial statements is on the District as a whole and the focus of the fund financial statements is on major individual funds. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental.

The government-wide Statement of Net Assets is presented on a full accrual basis of accounting, with an economic resource measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The government-wide Statement of Activities reflects the gross expenditures that are used to carry on the function of the District. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. In the fund financial statements, financial transactions and accounts of the District are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Governmental fund revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current

Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014

DRAFT

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.)

period. For this purpose, the District considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the government-wide financial statements. The entity has no fiduciary funds.

Each presentation provides valuable information that can be analyzed and compared (between governments) to enhance the usefulness of the information.

Net Assets

GASB Statement 34 established standards for external financial reporting for all state and local government entities including a statement of net assets and a statement of activities. It requires the classification of net assets of government-wide financial statements into three components – invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Restricted net assets are net assets upon which constraints have been externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – Unrestricted net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Balance

In accordance with GASB Statement 54, in the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Fund Balance (Cont.)

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances, the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless this authority modifies the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- Assigned – This classification reflects the amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of Managers has the authority to assign amounts to be used for specific purposes.
- Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Compensated Absences

The District accrues earned but unpaid vacation and sick leave pay in accordance with the District’s personnel policies. The amount of accrued compensated absences at December 31, 2014 is \$204,116. All paid time off is accrued when incurred in the government-wide financial statements.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of deposits in interest-bearing checking accounts of \$22,412 and petty cash of \$100.

**Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014**

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Use of 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 to 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.

NOTE B – DEPOSITS AND INVESTMENTS

The District's Board policy authorizes the District to invest in obligations of, or guaranteed by, government entities with less than two years to stated maturity or secured certificates of deposit issued by state or national banks domiciled in Texas or a savings and loan association domiciled in Texas that is insured by the FDIC or secured by other means as described in the Board policy.

The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes that it complied with the requirements of the PFIA and the District's investment policies.

The District's deposits and investments are categorized under investment categories to give an indication of credit risk. Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

Category 1

Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name; investments insured or registered in the name of the District, or securities held by the District or its agent in the District's name.

Category 2

Deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name, with securities held by the counter party's trust department or agent in the District's name.

Category 3

Deposits uncollateralized, including securities used for collateral held by the pledging financial institution or by its trust department or agent but not in the District's name; investments uninsured or unregistered in the District's name, with the securities held by the counter party's trust department or agent but not in the District's name.

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**Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014**

NOTE B – DEPOSITS AND INVESTMENTS (CONT.)

At December 31, 2014, the District's deposits are categorized as follows:

<u>Description</u>	<u>Carrying Amount</u>	<u>Risk Category</u>
Cash in Interest Bearing Accounts	\$ 22,412	1
Certificate of Deposit	\$ 2,926,233	2

Interest rates on certificates of deposit ranged from 0.20 % to 0.30 % during the year. Accrued interest on these deposits at December 31, 2014 was \$731.

The investments are reported by the District at amortized cost in accordance with Government Accounting Standards Board Statement (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable, as of December 31, 2014 is comprised of the following:

	<u>2013</u>
Service Fees:	
Southwestern Bell Telephone	\$ 19,048
Verizon	14,824
Cameron Telephone	159
Wireless Fees:	
State of Texas Advisory Commission on State Emergency Communications	58,010
Other	<u>1,603</u>
Total Accounts Receivable	\$ <u><u>93,643</u></u>

All amounts are considered to be fully collectible.

NOTE D – PREPAID ASSETS

Prepaid assets consist of the following:

<u>Prepaid Expense</u>	<u>2014</u>
Prepaid Rent	\$ 10,000
Maintenance Contracts	<u>46,666</u>
Total Prepaid Expense	\$ <u><u>56,666</u></u>

**Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014**

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NOTE E – CAPITAL ASSETS

Capital assets as of December 31, 2014 are comprised of the following:

	<u>Balance December 31, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2014</u>
Enhanced 9-1-1 Equipment	\$ 1,557,156	\$ 811,310	\$ (1,245,831)	\$ 1,122,635
Office Equipment	24,884			24,884
RTRS Equipment	3,187,202	855,478	(30,921)	4,011,759
Furniture and Fixtures	47,655			47,655
Tower Sites	479,888	65,290		545,178
Vehicles	17,849			17,849
	<u>5,314,634</u>	<u>1,732,078</u>	<u>(1,276,752)</u>	<u>5,769,960</u>
Less Accumulated Depreciation	<u>(3,906,877)</u>	<u>(496,359)</u>	<u>1,276,752</u>	<u>(3,126,484)</u>
Total	<u>\$ 1,407,757</u>	<u>\$ 1,235,719</u>	<u>\$ -</u>	<u>\$ 2,643,476</u>

Depreciation Method

The depreciation method is straight line using the estimated useful life. Estimated life of furniture and fixtures is seven years; five years for mapping equipment, office equipment, enhanced 911 equipment, and vehicles. RTRS equipment's useful lives are either 5, 8, or 10 years. New computer purchases are depreciated for 2 years. Maintenance and repairs are charged to expense as incurred. Renewals, improvements, and equipment acquisitions exceeding \$1,000 in cost are capitalized by charges to capital assets and depreciated at appropriate rates.

NOTE G – INTER-LOCAL AGREEMENT

Trunked radio is a computer controlled common radio system that takes advantage of trunked radio technology to provide wide area radio communications. The District has entered into inter-local agreements with the user entities. Subscriber fees are differentiated between governmental users and nongovernmental users. For participating and non-participating governmental users, the user fee is \$7.50 and \$9.00, respectively, per month per unit; the nongovernmental fee is \$10.00 per month per unit, effective when the radios are activated. User fees billed during the year ended December 31, 2014 were \$448,155.

NOTE H – SERVICE FEES

Revenues are collected by local telephone companies operating in the District's 9-1-1 service area. The revenues are then remitted to the District net of amount not collected from the

**Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014**

DRAFT

NOTE H – SERVICE FEES (CONT.)

telephone companies' customers and an administrative fee for processing and collection. Beginning in 1995, the District began collecting the 9-1-1 fee from owners of private telephone switches that provide residential service.

In November 1995, the District's Board of Managers authorized the levying of 9-1-1 service fees for all wireless telephones, which includes all cellular and PCN/PCS providers, beginning March 1, 1996. The rate levied was equivalent to the residential rate of \$0.62 per month. Effective September 1, 1998, the Texas legislature passed legislation requiring a payment of \$0.50 per wireless phone per month. The fee is collected through the State of Texas 9-1-1 Commission and distributed to the District from there.

The following is a breakdown of service fee revenues recognized for the year ended December 31, 2014:

	<u>Fees Billed</u>	<u>Administrative Fees</u>	<u>Not Collected</u>	<u>Service Fee Adjustments</u>	<u>Total</u>
Service Fees:					
AT&T	\$ 242,874	\$ (2,421)	\$ (751)	\$ (2)	\$ 239,700
Verizon	95,994	(946)		(1,401)	93,647
Cameron	1,771				1,771
Other	291,905				291,905
Private Switch	3,720				3,720
Wireless:					
State 9-1-1 Commission	<u>885,100</u>				<u>885,100</u>
Total	<u>\$ 1,521,364</u>	<u>\$ (3,367)</u>	<u>\$ (751)</u>	<u>\$ (1,403)</u>	<u>\$ 1,515,843</u>

NOTE I – ENHANCED 9-1-1 SERVICE COSTS

The District incurs monthly charges for the Enhanced 9-1-1 services provided by Southwestern Bell Telephone Company and Verizon, which is subject to rates as approved by the Public Utility Commission of Texas. The total charge for these services for the year ended December 31, 2013 was \$174,027.

NOTE J – OPERATING LEASE

Beginning July 2005, the District leases its office space in a building in Dickinson, Texas. The District has a ten year lease at the facility, which was prepaid in the amount of \$200,000. The prepaid rent is being amortized at the rate of \$1,667 per month. The amount of unamortized prepaid rent at December 31, 2014 is \$10,000.

Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014

DRAFT

NOTE K – INSURANCE

All risk of loss is purchased through standard commercial insurance carriers. Risk of loss retained by the District is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

NOTE L – RELATED PARTY TRANSACTIONS

Certain members of the Board of Managers for the District are also board members at the depository institution where cash and certificates of deposit are held. This relationship was declared during the bid acceptance process and they abstained from voting on the public funds depository bid.

NOTE M – EMPLOYEE DEFINED BENEFIT PENSION RETIREMENT PLAN

Plan Description

Galveston County Emergency Communication District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the state-wide 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 656 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or online at www.tcdrs.org.

The plan provisions are adopted by the governing body of the employers, 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 20 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 but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contribution in a lump sum are not entitled to any amounts contributed by the employer.

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 governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer 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

DRAFT

**Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014**

NOTE M – EMPLOYEE DEFINED BENEFIT PENSION RETIREMENT PLAN (CONT.)

contribution rate of the employer is actuarially determined annually. It was 14.32% for the calendar year 2014. The contribution rate payable by the employee members is the rate of 7.00% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ending December 31, 2014, the annual pension cost for the TCDRS plan for its employees was \$76,649. Actual contributions were \$276,649. The required contribution was determined as part of the December 31, 2013 actuarial valuation using the entry age actuarial cost method.

Schedule of Employer Contributions

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligations were as follows:

<u>Year Ending</u>	<u>Cost (APC)</u>	<u>APC Contributed</u>	<u>Obligation</u>
12/31/12	\$ 66,021	100%	\$ -
12/31/13	\$ 69,853	100%	\$ -
12/31/14	\$ 76,649	361%	\$ -

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 90.87% funded. The actuarial accrued liability for benefits was \$2,126,976, and the actuarial value of assets was \$1,932,830, resulting in an unfunded actuarial accrued liability (UAAL) of \$194,146. The covered payroll (annual payroll of active employees covered by the plan) was \$514,383 and the ratio of the UAAL to the covered payroll was 37.74%.

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 liability for benefits.

Methods and Assumptions

The December 31, 2013 actuarial valuation was prepared using the entry age actuarial cost method. The actuarial assumptions at December 31, 2013 included (a) 8.0 percent investment rate of return (net of administrative expenses), (b) projected salary increases of 4.9 percent and (c) an inflation component of 3.0 percent. The actuarial value of assets was determined using

NOTE M – EMPLOYEE DEFINED BENEFIT PENSION RETIREMENT PLAN (CONT.)

Methods and Assumptions (Cont.)

techniques that spread the effects of short-term volatility in the market value of investment over a ten-year period. Then unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2013 was 20 years.

Actuarial Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed
Amortization Period	20 Years	20 Years	20 Years
Asset Valuation Method	SAF:10-YR Smoothed Value ESF:Fund Value	SAF:10-YR Smoothed Value ESF:Fund Value	SAF:10-YR Smoothed Value ESF:Fund Value
Actuarial Assumptions:			
Investment Return	8.00%	8.00%	8.00%
Projected Salary Increases	5.40%	5.40%	4.90%
Inflation	3.50%	3.50%	3.00%
Cost of Living Adjustments	0.00%	0.00%	0.00%

NOTE N – DEFERRED COMPENSATION PLAN

All employees participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, or death. The plan is administrated by an insurance company.

NOTE O – EMPLOYEE DEFINED BENEFIT HEALTHCARE RETIREMENT PLAN

Plan Description

Galveston County Emergency Communications District provides its employees health benefits upon retirement. Benefit provisions are established or may be amended under the authority of the District’s management. The District administers the single-employer defined benefit plan.

Funding Policy

This plan represents an unfunded OPEB program. Employer contributions will be made on a pay-as-you-go basis subject to the originating policy adopted by the District’s management. Retired plan members are not required to contribute to the plan.

DRAFT

**Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014**

NOTE O – EMPLOYEE DEFINED BENEFIT HEALTHCARE RETIREMENT PLAN (CONT.)

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 one hundred total plan members. The District'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.

The following represents the development of the annual OPEB cost and net OPEB obligation at December 31:

	<u>2014</u>
Net OPEB Obligation at Beginning of Year	\$ <u>310,044</u>
Annual Required Contribution	103,634
Interest on Net OPEB Obligation	9,301
Adjustment to Annual Required Contribution	<u>(9,626)</u>
Annual OPEB Cost (Expense)	<u>103,309</u>
Employer Contributions Made	79,204
Net OPEB Obligation at End of Year	\$ <u><u>334,149</u></u>

Schedule of Employer Contributions

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

<u>Accounting Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/12	\$ 97,282	0%	\$ 247,530
12/31/13	\$ 100,230	38%	\$ 310,044
12/31/14	\$ 103,309	77%	\$ 334,149

Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014

DRAFT

NOTE O – EMPLOYEE DEFINED BENEFIT HEALTHCARE RETIREMENT PLAN (CONT.)

Funded Status and Funding Progress

As of the valuation date, December 31, 2012, the plan assets were \$0, the actuarial accrued liability for benefits was \$810,229, the total unfunded actuarial liability is \$810,229, 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 \$488,988, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 166%.

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 expectation 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.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plans 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 included 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 3.0% was used. A general price inflation of 2.80% was assumed. In addition, the Projected Unit Credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2012 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.

The following simplifying assumptions were made pursuant to the Alternative Measurement Method:

Retirement Age for Active Employees – Estimated using the earliest age eligible for normal retirement.

Active Member Marital Status – Assumption of marital status for active employees has been incorporated in the acceptance probability for spousal coverage. Using this

Galveston County Emergency Communication District
Notes to Financial Statements
December 31, 2014

approach, the percentage of future retired plan members taking spousal coverage was assumed at 0%.

NOTE O – EMPLOYEE DEFINED BENEFIT HEALTHCARE RETIREMENT PLAN(CONT.)

Methods and Assumptions (Cont.)

Mortality – Life expectancies were based on the 2004 United States Male and Female life tables.

Turnover – Non-group-specific age-based turnover data provided in GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare Cost Trend Rate – Health cost is expected to increase 7% in the year 2013 due to new health care legislation. For years 2014 through 2016 an increase of 4% per year is anticipated. For the year 2017 an increase of 5% is estimated and then a leveling off with a 3% increase through the year 2021.

Healthcare Insurance Premiums – Health insurance premiums for retirees in effect at December 31, 2012 were used as the basis for calculating the present value of total benefits to be paid.

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Required Supplementary Schedules and Other Information

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Galveston County Emergency Communication District
Schedules of Funding Progress
December 31, 2014

Employee Defined Benefit Pension Retirement Plan

<u>Actuarial Valuation</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>[(b-a)/c]</u>
12/31/11	\$ 1,477,639	\$ 1,645,886	\$ 168,247	89.78%	\$ 447,173	37.62%
12/31/12	\$ 1,674,500	\$ 1,880,829	\$ 206,329	89.03%	\$ 486,878	42.38%
12/31/13	\$ 1,932,830	\$ 2,126,976	\$ 194,146	90.87%	\$ 514,383	37.74%

Employee Defined Benefit Healthcare Retirement Plan

<u>Actuarial Valuation</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>[(b-a)/c]</u>
12/31/12	0	810,229	810,229	0%	488,988	166%

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Managers
Galveston County Emergency Communication District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and governmental fund information of the Galveston County Emergency Communication District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Galveston County Emergency Communication District's basic financial statements, and have issued our report thereon dated May 12, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Galveston County Emergency Communication District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Galveston County Emergency Communication District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Galveston County Emergency Communication District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Galveston County Emergency Communication District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

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objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katherine Overbeck Maxwell, CPA, PLLC

Galveston, Texas

May 12, 2015