

Galveston County
Health District

GALVESTON COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2009

GALVESTON COUNTY HEALTH DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2009

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Independent Auditors' Report

To Galveston County United Board of Health
Galveston County Coordinated Community Clinics
Governing Board
Galveston County Health District

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Health District (the "District"), as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Galveston County Health District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Galveston County Health District, as of September 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009, on our consideration of Galveston County Health District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, budgetary comparison information and pension information on pages 38 through 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script, appearing to read "Sugar Land & Co.", is written in black ink.

Sugar Land, Texas
December 7, 2009

Management's Discussion and Analysis

As management of Galveston County Health District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended September 30, 2009.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,856,416 (net assets).
- As of September 30, 2009, the District's governmental funds reported an ending fund balance of \$6,507,536.
- The District's cash and investments balance at September 30, 2009 was \$5,148,927, representing an increase of \$263,030 from September 30, 2008.
- The District had expenses net of program revenue of \$6,023,441 and general revenues of \$8,028,374, resulting in a net increase in net assets of \$2,004,933 for the year ended September 30, 2009.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$2,222,450, or 27.8 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include 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* 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 most recent fiscal year. All changes in net assets are reported as soon as 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 future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The government-wide financial statements present functions of the District that are provided from funding sources (governmental activities). The government-wide financial statements can be found on pages 15-17 of this report.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District consist solely of governmental funds (the General Fund and Special Revenue Funds).

Governmental Funds - Governmental funds are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows 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 government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide an adjustments column to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 15 through 22 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 36 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's General Fund and Major Special Revenue Funds budgets and pension data. Required supplementary information can be found on pages 38 through 42 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,856,416 as of September 30, 2009.

The largest portion of the District's net assets (47.9 percent) represents unrestricted financial resources available for future operations.

A portion of the District's net assets reflects its investment in capital assets (e.g. land, buildings, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.

Additionally, a portion of the District's net assets (27.9 percent) represents resources that are subject to restrictions on how they may be used.

SUMMARY OF STATEMENT OF NET ASSETS
As of September 30, 2009 and 2008
(amounts expressed in thousands)

	Governmental Activities	
	2009	2008
Current and other assets	\$ 10,500	\$ 7,846
Capital assets, net	2,024	1,717
Total Assets	12,524	9,563
Long-term liabilities	520	495
Other liabilities	4,148	3,217
Total Liabilities	4,668	3,712
Net Assets:		
Invested in capital assets, net of debt	1,899	995
Restricted	2,191	1,697
Unrestricted	3,766	3,159
Total Net Assets	\$ 7,856	\$ 5,851

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

Net assets of the District, all of which relate to governmental activities, increased by \$2,004,933. Key elements of the increase are as follows:

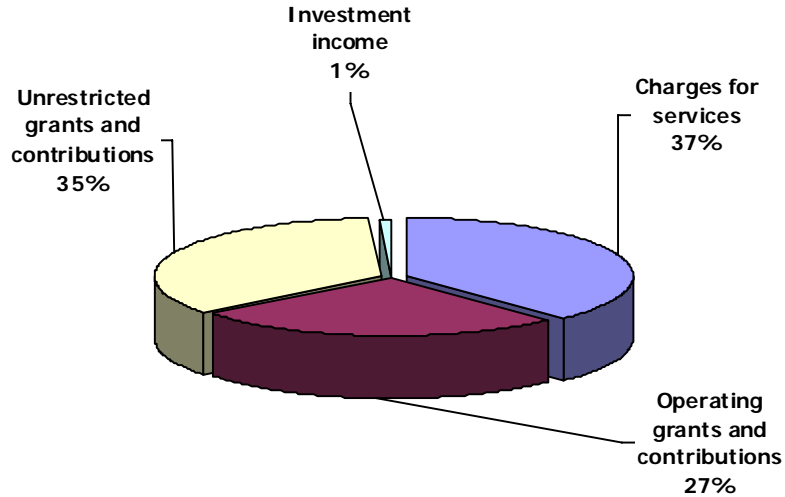
CHANGES IN NET ASSETS
For the Fiscal Years Ended September 30, 2009 and 2008
(amounts expressed in thousands)

	Governmental Activities	
	2009	2008
Revenues		
Program revenues:		
Charges for services	\$ 8,576	\$ 7,883
Operating grants and contributions	6,060	4,742
General revenues:		
Unrestricted grants and contributions	7,853	7,441
Investment income	175	186
Total Revenues	22,664	20,252
Expenses		
Public Health	3,479	3,428
Public Health Reimbursable	2,880	2,620
Animal Services	847	785
Pollution Control	801	721
Patient Services	7,266	6,632
Ambulance Services	5,374	5,661
Interest on long-term debt	12	18
Total Expenses	20,659	19,865
Change in Net Assets	2,005	387
Net assets, beginning	5,851	5,464
Net Assets, Ending	\$ 7,856	\$ 5,851

This increase is primarily a result of higher operating grants and contributions during this period.

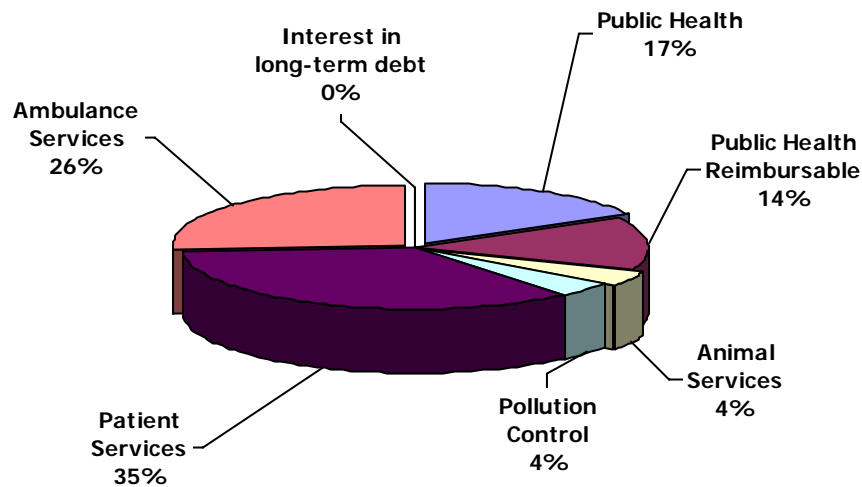
Graphic presentations of selected data from the changes in net assets table follow to assist in the analysis of the District's activities.

GOVERNMENTAL REVENUES



For the fiscal year ended September 30, 2009 revenue from governmental activities totaled \$22,664,121.

GOVERNMENTAL FUNCTIONAL EXPENSES



For the fiscal year ended September 30, 2009 expenses from governmental activities totaled \$20,659,188, the largest portions of which related to patient services and ambulance services.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's governmental funds are discussed below:

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of September 30, 2009, the District's governmental funds, which consist of a general fund and special revenues funds, reported an ending fund balance of \$6,507,536, which is an increase of \$1,631,989 from last year's total of \$4,875,547. The General Fund, the District's main operating fund, had an ending fund balance of \$3,026,519, a \$313,516 increase from the prior year. The increase was mainly due to more intergovernmental revenues than the previous fiscal year. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 27.8 percent of total general fund expenditures. The three Special Revenue funds reported an ending fund balance of \$3,481,017, of which \$675,000 is reserved for the 4C's capital expenditures and \$796,318 is designated for the 4C's operating reserves.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's final 2009 General Fund budget estimated revenues of \$12.0 million. The actual realized revenues for this period were \$207,839, or 1.7%, higher than what had been budgeted for this year. General Fund revenues during this period were higher primarily due to increased grant revenues.

General Fund operating expenditures and other financing uses in 2009 were budgeted at \$12.0 million, and actual expenditures and other financing uses incurred at September 30, 2009 were \$105,677, or .88% lower than what had been projected for this year. Costs incurred for salaries and benefits were 6.5% lower than what had been budgeted for this period due to salary lapses and cost savings from group health insurance premiums. On the other hand, expenditures for office supplies, contractual services and equipment costs exceeded budget projections, but were offset by grant funding.

Overall, actual results of operations in the General Fund this year were favorable. Actual operating revenues less expenditures and other financing uses exceeded what had been budgeted for this period by \$313,516; thereby increasing the fund balance for this period by the same amount.

As of September 30, 2009, the General Fund had a fund balance of \$3.0 million. On October 29, 2008, the United Board of Health designated that \$2.6 million of the fund balance be reserved as follows: \$1.43 million for capital expenditures and/or replacements, \$118 thousand for salary reserves, and \$1.1 million as an operating reserve.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The District's investment in capital assets as of September 30, 2009 amounts to \$2,024,282 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, furniture and equipment, and vehicles.

CAPITAL ASSETS SCHEDULE

	Governmental Activities	
	2009	2008
Buildings and improvements	\$ 330,490	\$ 136,965
Furniture and equipment	1,512,375	1,413,979
Vehicles	1,826,546	1,678,493
Less: accumulated depreciation	(1,645,129)	(1,512,144)
Total Capital Assets, Net	\$ 2,024,282	\$ 1,717,293

Additional information on the District's capital assets can found in Note 5 in the notes to financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the District had total notes payable and compensated absences of \$675,402.

SCHEDULE OF LONG-TERM DEBT

	Governmental Activities	
	2009	2008
Notes payable	\$ 125,051	\$ 255,550
Compensated absences	550,351	485,807
Total	\$ 675,402	\$ 741,357

Additional information on the District's long-term debt can be found in Note 6 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District is currently operating under its fiscal year 2010 budget, which was adopted and passed by its respective Boards in accordance with state and federal guidelines. The following schedule outlines a comparison of the fiscal year 2009 budget and fiscal year 2010 budget for both estimated revenues and appropriations (amounts expressed in thousands):

Fund	Year Ending September 30,		Increase (Decrease)
	2010	2009	
General Fund			
Revenue	\$ 12,615	\$ 12,060	\$ 555
Expenditures and transfers	12,615	12,060	555
Galveston County Coordinated Community Clinics			
Revenue and transfers	8,003	7,662	341
Expenditures	8,003	7,662	341
Galveston Area Ambulance Authority			
Revenue	5,673	6,022	(349)
Expenditures	6,485	6,022	463

General Fund - In comparison to last year, the 2010 General Fund budget increased by \$555,000 or 4.6%. Although fees for services were expected to remain relatively level from last year, Grant and County revenues were expected to increase by approximately \$468,000 and \$21,300 respectively. Grant revenue included new funding related to the Public Health Preparedness and WIC programs. In addition, administrative fee revenues increased by \$58,000 for administrative costs associated with the Bolivar and WIC operations. Animal Shelter adoption revenue was also projected to increase by \$20,000; while other revenue sources were expected to remain level or change only slightly.

4C's Clinic - The 4C's budget based on the 2010 fiscal year increased by \$341,000 or 4% from last year. Funding in 2010 included additional HRSA grant funding of \$101,591 related to the American Recovery and Reinvestment Act (ARRA). Through ARRA funding, the 4C's was awarded two additional grants to support 4C's clinic operations. The Increase Services to Health Centers Grant (IDS) was awarded on 3/27/09 for a 2-year period and is being used to primarily fund 4C's Saturday clinic operations. The Capital Improvement Program Grant (CIP) was awarded on 6/29/09 for a 2-year period to provide funding for a new Electronic Practice Management System (EPM), Electronic Medical Record System (EMR) and Electronic Dental Record System (EDR), along with related IT equipment for infrastructure improvements. County funding in 2010 also included an increase of \$154,445 from last year to help support the increased demand for primary care services within the County. In addition, HHS grant revenue related to the 4C's primary care grant increased by \$94,823 from the previous year.

Galveston Area Ambulance Authority (GAAA) - In comparison to last year, GAAA revenues for fiscal year 2010 were budgeted \$349,000 or 6% less than last year, while expenditures were projected to increase by \$463,000 or 8% from last year. Projected revenues from fees were based on the current payer mix and projected call volumes. Call volumes for the Galveston 911 and Transfer services were projected to decrease by approximately 22% and 70% respectively during the 2010 fiscal year due to recent declines in call volume experienced since Hurricane Ike. A Community Disaster Loan (CDL) was awarded from the Department of Health & Human Services to assist with any operating deficits during the next 3 years or until

call volume improves to pre Hurricane levels. The 2010 budget also included an increase of \$344,000 due to the expansion of EMS services to the Bolivar Peninsula, which was funded by the County of Galveston. The funding from the County and participating cities for the Bayshore and Hitchcock service areas decreased by \$130,000, while the City of Galveston funding remained at the 2009 budget level.

Expenditures - In comparison to last year, 2010 budgeted expenditures from all funds were higher than the previous year. Personnel costs in the General Fund and the 4C's Clinics remained level; while personnel cost for GAAA field staff included a 5% salary adjustment based on the plan established last year to adjust GAAA field staff salaries to current market levels over a 4-year period. Also reflected in the 2010 budget were increases in Personnel and Equipment cost funded in part by Public Health Preparedness and ARRA funding. Capital equipment expenditures included the replacement of (2) Type III ambulances for the Galveston 911 and Bolivar 911 service areas, (1) Type II ambulances for the Galveston and Mainland Transfer Service area, a remount of a Type III ambulance for the Galveston 911 service, and (4) power stretchers.

The District has added no major new programs or initiatives to the 2010 budget, and anticipates that all fund balances will remain level or potentially be increased by the end of fiscal year 2010 if budget estimates are realized.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Galveston County Health District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Galveston County Health District: Kathy Barroso, Chief Financial Officer, P.O. Box 939, La Marque, Texas 77568.

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BASIC FINANCIAL STATEMENTS

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GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS

September 30, 2009

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 5,057,857
Investments	91,070
Receivables:	
Federal	587,716
State	61,982
Due from other governments	861,790
Due from Galveston County	3,719,775
Prepaid expenses	68,159
Inventories	51,460
Capital assets, net of accumulated depreciation:	
Buildings and improvements	252,566
Furniture and equipment	749,769
Vehicles	1,021,947
Total Assets	<u>12,524,091</u>
<u>Liabilities</u>	
Accounts payable and other current liabilities	1,054,998
Unearned revenue	2,410,228
Due to other governments	527,047
Noncurrent liabilities:	
Due within one year	155,643
Due in more than one year	519,759
Total Liabilities	<u>4,667,675</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	1,899,231
Restricted for:	
Clinic operations	2,190,743
Unrestricted	3,766,442
Total Net Assets	<u>\$ 7,856,416</u>

GALVESTON COUNTY HEALTH DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009

Functions/Programs	Expenses	Program
		Charges for Services
Governmental Activities:		
Public health	\$ 3,478,728	\$ 1,404,067
Public health reimbursable	2,879,804	252,441
Animal services	846,576	494,169
Pollution control	801,290	112,612
Patient services	7,265,802	1,591,730
Ambulance services	5,374,479	4,720,900
Interest on long term debt	12,509	
Total Governmental Activities	\$ 20,659,188	\$ 8,575,919
General Revenues:		
Grants and contributions not restricted to specific programs		
Investment income		
Total General Revenues		
Change in Net Assets		
Net Assets - beginning		
Net Assets - Ending		

<u>Revenues</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
<u>Operating Grants and Contributions</u>	<u>Governmental Activities (Total)</u>
\$ 50,101	\$ (2,024,560)
2,823,997	196,634
8,700	(343,707)
396,442	(292,236)
2,128,169	(3,545,903)
652,419	(1,160)
	(12,509)
<u>\$ 6,059,828</u>	<u>\$ (6,023,441)</u>

7,852,900
175,474
<u>8,028,374</u>
2,004,933
5,851,483
<u>\$ 7,856,416</u>

GALVESTON COUNTY HEALTH DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2009

	<u>General</u>	<u>Galveston County Coordinated Community Clinics</u>	<u>Galveston Area Ambulance Authority</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,106,940	\$ 2,383,497	\$ 1,567,420
Investments	25,032	20,308	45,730
Receivables:			
Federal	587,716		
State	61,982		
Other	9,796	227,124	624,870
Due from other funds	152,249		
Due from Galveston County	3,719,775		
Prepaid items	46,991	16,758	4,410
Inventories	23,940	27,520	
Total Assets	<u>\$ 5,734,421</u>	<u>\$ 2,675,207</u>	<u>\$ 2,242,430</u>
<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 348,077	\$ 321,066	\$ 318,717
Deferred revenue	1,758,873	12,500	638,855
Due to other funds	73,905	150,898	1,351
Due to other governments	527,047		
Total Liabilities	<u>2,707,902</u>	<u>484,464</u>	<u>958,923</u>
<u>Fund Balances</u>			
Fund Balances:			
Reserved for:			
Inventories	23,940	27,520	
Prepaid items	46,991	16,758	4,410
Salary reserve	197,797		
Capital expenditures	535,341	675,000	
Unreserved:			
Designated, operating reserves	1,100,000	796,318	
Designated, clinic renovations	921,014		
Undesignated	201,436	675,147	1,279,097
Total Fund Balances	<u>3,026,519</u>	<u>2,190,743</u>	<u>1,283,507</u>
Total Liabilities and Fund Balances	<u>\$ 5,734,421</u>	<u>\$ 2,675,207</u>	<u>\$ 2,242,430</u>

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 funds.

Long-term liabilities, including notes payable (\$125,051) and accrued compensated absences (\$550,351) are not due and payable in the current period and are therefore not reported in the funds.

Net Assets of Governmental Activities

See Notes to Financial Statements.

<u>Other Grants</u>	<u>Total Governmental Funds</u>
\$	\$ 5,057,857
	91,070
	587,716
	61,982
	861,790
73,905	226,154
	3,719,775
	68,159
	51,460
<u>\$ 73,905</u>	<u>\$ 10,725,963</u>

\$ 67,138	\$ 1,054,998
	2,410,228
	226,154
	527,047
<u>67,138</u>	<u>4,218,427</u>

	51,460
	68,159
	197,797
	1,210,341
	1,896,318
	921,014
<u>6,767</u>	<u>2,162,447</u>
<u>6,767</u>	<u>6,507,536</u>
<u>\$ 73,905</u>	

2,024,282

(675,402)

\$ 7,856,416

GALVESTON COUNTY HEALTH DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2009

	<u>General</u>	<u>Galveston County Coordinated Community Clinics</u>	<u>Galveston Area Ambulance Authority</u>
Revenues			
Program services	\$ 2,010,848	\$ 1,591,730	\$ 3,511,947
Intergovernmental			
Federal/state	3,279,239	2,038,199	647,736
Local	6,893,900	89,970	2,172,637
Investment earnings	84,093	63,196	28,185
Total Revenues	<u>12,268,080</u>	<u>3,783,095</u>	<u>6,360,505</u>
Expenditures			
Current:			
Public health	3,426,487		
Public health reimbursable	2,624,174		
Animal services	813,519		
Pollution control	766,937		
Patient services	91,285	7,108,859	
Ambulance services			5,089,155
Debt Service:			
Principal retirement	28,361	39,705	182,395
Interest and fiscal charges	1,182	1,655	9,672
Capital Outlay	<u>246,351</u>	<u>95,107</u>	<u>377,948</u>
Total Expenditures	<u>7,998,296</u>	<u>7,245,326</u>	<u>5,659,170</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures			
	<u>4,269,784</u>	<u>(3,462,231)</u>	<u>701,335</u>
Other Financing Sources (Uses)			
Proceeds from long-term debt			119,960
Transfers in		3,956,268	
Transfers (out)	<u>(3,956,268)</u>		
Total Other Financing Sources (Uses)	<u>(3,956,268)</u>	<u>3,956,268</u>	<u>119,960</u>
Net Change in Fund Balance			
	313,516	494,037	821,295
Fund balances - Beginning	<u>2,713,003</u>	<u>1,696,706</u>	<u>462,212</u>
Fund Balances - Ending	<u>\$ 3,026,519</u>	<u>\$ 2,190,743</u>	<u>\$ 1,283,507</u>

<u>Other Grants</u>	<u>Total Governmental Funds</u>
\$ 252,441	\$ 7,366,966
	5,965,174
	9,156,507
	175,474
<u>252,441</u>	<u>22,664,121</u>
	3,426,487
249,300	2,873,474
	813,519
	766,937
	7,200,144
	5,089,155
	250,461
	12,509
	719,406
<u>249,300</u>	<u>21,152,092</u>
<u>3,141</u>	<u>1,512,029</u>
	119,960
	3,956,268
	(3,956,268)
	119,960
3,141	1,631,989
3,626	4,875,547
<u>\$ 6,767</u>	<u>\$ 6,507,536</u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-5

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009

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

Net change in fund balances - total governmental funds	\$ 1,631,989
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$760,622) exceeded depreciation (\$453,633) in the current period.	306,989
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount by which repayments of \$250,459 exceeded proceeds of \$119,960.	130,499
Some expenses 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 adjustment reflects the net change in accrued compensated absences.	<u>(64,544)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 2,004,933</u></u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND OPERATIONS

The structure and operation of the Galveston County Health District (the "District") is governed by Subtitle E, Health and Safety Code, Chapter 121 Local Public Health Reorganization Act. This law provides for the formation, structure and operation of the District. The District was formed by a contractual arrangement between the County of Galveston and the Cities within the County. This contract provides for an Administrative Board (Galveston County United Board of Health) that sets policy and associated operating budget(s) for the public health, pollution control, animal services and ambulance services operated by the District. The Board of Health has delegated to the Galveston County Coordinated Community Clinics' (4C's) Governing Board the operational responsibility for health care that is provided through the community health center's medical and dental clinics.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the District conform with accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments that include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The following is a summary of the most significant policies:

A. Reporting Entity

These financial statements contain all the operations and activities of the Galveston County Health District, the Galveston County Coordinated Community Clinics and the Galveston Area Ambulance Authority. A 13-member board is nominated by the Commissioners Court of Galveston County, Texas and approved by a majority of the member governments; this board governs the District. These financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations or functions have been included in the District's financial reporting entity. The District is considered a component unit of Galveston County, Texas. Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by accounting principles generally accepted in the United States of America. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is its fiscal dependency on the County.

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

B. Basis of Accounting/Measurement Focus

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

C. Government-wide Financial Statements

The District Government-wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Type Activities for the District.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in two categories: 1) charges for services and 2) operating grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

D. Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-wide financial statements. The District has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District, are intergovernmental revenues. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

E. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when the District receives cash.

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Galveston County Coordinated Community Clinics Fund* ("4 Cs") is used to account for the operations of two community clinics throughout Galveston County. The principal sources of revenues for this fund are Federal and Local grants, program revenues from Galveston County, and charges for patient services. Expenditures relate to the costs of providing medical and dental outpatient services at the clinics.

The *Galveston Area Ambulance Authority Fund* ("GAAA") accounts for the contract operations of emergency medical services and medical transport services programs. Principal Revenues consist of charges for services.

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

Additionally, the District reports the following non-major governmental fund type:

The *Other Grants and Programs Fund* accounts for grants and programs not associated specifically with clinic or ambulance services and operations. The grants and programs are expenditure driven in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

F. Assets, Liabilities and Net Assets or Equity Cash and Investments

Cash and Investments

Cash and cash equivalents include amounts in demand deposits and various petty cash funds used in daily operations of the District. Investments represent amounts held in TexPool accounts.

Inventory

Inventory consists of pharmaceuticals and office supplies and is reported at original cost.

Property and Equipment

Capital assets, which include building and improvements, equipment and vehicles are reported in the governmental activities column, in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Costs for the purchase or construction of facilities and other fixed assets are recorded as capital outlay expenditures in the governmental fund financial statements.

Interest incurred during construction is not capitalized. Depreciation on capital assets is calculated on the straight- line basis over the following estimated useful lives:

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	15 years
Furniture and equipment	3 - 10 years
Vehicles	8 years

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation, compensatory and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the District. All vacation and compensatory pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements long term debt for capital lease obligations are reported as liabilities in the governmental activities statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Reclassifications

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the excess of revenues over expenditures.

Estimates

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

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH AND INVESTMENTS

Deposit Custodial Credit Risk

Custodial credit risk *as* it applies to cash is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with *financial* institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

The deposits are included as part of Galveston County's depository contract with the financial institution. Under the terms of the depository agreement, the deposits are to be covered by federal depository insurance or pledged security held by the County's agent in the County's name.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest. As of September 30, 2009, the District's investments consisted of 100% TexPool.

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) 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

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price. Accordingly, the fair value of the District's position in TexPool is the same as the value of TexPool shares.

NOTE 4 - RECEIVABLES

At September 30, 2009 accounts receivable consisted of the following:

	<u>General</u>	<u>Galveston County Coordinated Community Clinics</u>	<u>Galveston Area Ambulance Authority</u>
Federal:			
Reimbursement of expenditures under federal grants	<u>\$ 587,716</u>	<u>\$</u>	<u>\$</u>
State:			
Reimbursement of expenditures under state grants	<u>\$ 61,982</u>	<u>\$</u>	<u>\$</u>
Other:			
Patient or program fees	<u>\$ 9,796</u>	<u>\$ 227,124</u>	<u>\$ 624,870</u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2009:

	<u>Balance</u> <u>Oct. 1, 2008</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance</u> <u>Sept. 30, 2009</u>
Governmental Activities:				
Buildings and improvements	136,965	193,525		330,490
Furniture and equipment	1,413,979	156,972	(58,576)	1,512,375
Vehicles	1,678,493	410,125	(262,072)	1,826,546
Total cost	<u>3,229,437</u>	<u>760,622</u>	<u>(320,648)</u>	<u>3,669,411</u>
Less accumulated depreciation for:				
Buildings and improvements	(60,612)	(17,312)		(77,924)
Furniture and equipment	(652,051)	(169,131)	58,576	(762,606)
Vehicles	(799,481)	(267,190)	262,072	(804,599)
Total accumulated depreciation	<u>(1,512,144)</u>	<u>(453,633)</u>	<u>320,648</u>	<u>(1,645,129)</u>
Total Capital Assets, Net	<u>\$ 1,717,293</u>	<u>\$ 306,989</u>	<u>\$</u>	<u>\$ 2,024,282</u>

Depreciation was charged to functions of the District as follows:

Function:	
Public health	\$ 41,252
Public health-reimbursable	38,355
Animal services	30,485
Pollution control	31,887
Clinic	42,616
GAAA	269,038
Total Depreciation Expense	<u>\$ 453,633</u>

NOTE 6 - LONG-TERM DEBT

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2009, was as follows:

	<u>Balance</u> <u>October 1,</u> <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Sept. 30,</u> <u>2009</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
Notes payable	255,550	119,960	(250,459)	125,051	105,643
Compensated absences	475,524	74,827		550,351	50,000
Total	<u>\$ 731,074</u>	<u>\$ 194,787</u>	<u>\$ (250,459)</u>	<u>\$ 675,402</u>	<u>\$ 155,643</u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

Notes payable at September 30, 2009 consist of the following:

Note payable, collateralized by equipment, payable in monthly installments of \$6,155 plus interest at 5.8 %, maturing November 2009	17,625
Note payable bearing interest at 6.25%, collateralized by equipment, payable in monthly installments of \$1,997, maturing July 2011.	41,005
Note payable bearing interest at 5.0%, collateralized by ambulances, payable in monthly installments of \$5,263, maturing October 2010.	66,421
	\$ 125,051

Maturities on the notes payable are as follows:

Year	Amount
2010	\$ 105,643
2011	19,408
	\$ 125,051

Accrued compensated absences represent vacation and compensatory time off earned by District, Clinic and GAAA employees. These employees are 100 percent vested with respect to these benefits when earned. These amounts are expected to be paid from future available resources upon the employees' termination or retirement. No accrued compensated absences have been recorded for General Fund (County) employees, nor has any liability been recorded for accrued sick leave which is payable to County employees at a reduced rate only upon retirement.

NOTE 7 - INTERFUND TRANSACTIONS

Interfund balances due to/from as of September 30, 2009 are as follows:

Receivable Fund	Payable Fund	Amounts
General Fund	Galveston County Coordinated Community Clinics Center	\$ 150,898
General Fund	Galveston Area Ambulance Fund	1,351
Other Grants Fund	General Fund	73,905
		\$ 226,154

The outstanding balances between funds primarily result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - EMPLOYEE RETIREMENT PLANS

Galveston County Health District personnel are divided into four groups for retirement plan purposes. The following is a discussion of the three different defined contribution plans and a description of the personnel covered by each plan.

Defined Contribution Plan - County

The District (through Galveston County, Texas) provides pension benefits for a portion of its full-time employees on Galveston County payroll through a defined contribution plan in the state-wide Texas County and District Retirement System (TCDRS), one of over 552 administered by TCDRS, an agent multiple employee public employment retirement system.

Under the state law governing TCDRS, the County contributes a fixed rate of 7% on each member employee. The County is also required to contribute 11.65% for each employee under the alternate plan. During the year ended September 30, 2009, the District made the required contributions of \$131,105.

TCDRS Defined Benefit Plan

Effective July 1, 2008, the District converted to a non-traditional defined benefit 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 586 nontraditional defined benefit pension plans. TCDRS 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 employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 8 or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions to the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits, with interest. 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 commitments to contribute. At retirement, disability or death, 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, as prescribed by the TCDRS Act.

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The employer has chosen a variable rate plan under the 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 was 4.83% and the contribution rate for employees was 7%, as adopted by the governing body of the employer. The contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer with options available in the TCDRS ACT.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the employer to contribute a fixed supplemental contribution rate determined by the system's actuary above the regular rate for 25 years or to reduce benefits earned in the future.

Annual Pension Cost

The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2008 included a) 8.0 percent investment rate of return (net of administrative expenses), and b) projected salary increases of 5.3 percent. Both a) and b) included an inflation component of 3.5%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The 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, 2008 was 20 years.

Funded Status and Funding Progress

As of December 31, 2008, the most recent actuarial valuation date, the plan was 42.93% funded. The actuarial accrued liability for benefits was \$1,390,412, and the actuarial value of assets was \$596,892, resulting in an unfunded actuarial accrued liability (UAAL) of \$793,520. The covered payroll (annual payroll of active employees covered by the plan) was \$10,125,279, and the ratio of the UAAL to the covered payroll was 7.84%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Deferred Compensation Plan

In addition, the District makes available a deferred compensation plan under Internal Revenue Code Section 457. The plan was effective April 1, 2000 and is available to employees of the General Fund, 4C's clinic and GAAA. The assets of the plan shall be held in trust for the

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

exclusive benefit of the Plan participants and their beneficiaries. The Plan is administered by an authorized administrator who is responsible for ensuring that the Plan is operating in accordance with plan terms and conditions including but not limited to investment options. Employees may voluntarily contribute up to a basic annual limit of \$16,500 into the plan.

NOTE 9 - OPERATING LEASES

The District has entered into operating leases with the following lessors:

Mainland Children's Partnership, Inc.

The District entered into a ten year lease for the Texas City 4C's medical and dental clinic commencing September 1, 2006. The lease provides for an option to renew for an additional 5 years. Minimum lease payments are \$26,561 per month.

The District entered into a one year lease for the Women's Infants and Children's program commencing September 1, 2009 and terminating on August 31, 2010. The lease provides for an option to renew the lease three times with a 60-day advance notice. Minimum lease payments are \$3,150 per month.

Galveston Housing Authority

The District entered into a month to month lease to lease space at the Island Community Center to operate various public health functions. The lease commenced on December 1, 2008. Minimum lease payments are \$11,475 per month.

The District entered into a five year lease to lease space at the Island Community Center to operate the Galveston 4C's medical and dental clinic. The lease commenced on August 1, 2006 and will terminate on July 31, 2011. Minimum lease payments are \$14,161 per month.

The District entered into a five year lease to lease space at the Island Community Center to operate the Women's, Infant's and Children's program. The lease commenced on April 1, 2007 and will expire March 31, 2012. Minimum lease payments are \$1,882 per month.

EETCO Texas General Partnership

The District entered into a five year lease to lease space for the Immunization and Women's, Infant's and Children's program at 905 Pine Drive in Dickinson, Texas. The lease commenced on March 1, 2004 and was renewed on a month to month basis effective March 1, 2009. Minimum lease payments are \$3,006 per month. Services at this location will be relocating to the Gulf Freeway site once construction has been completed, at which time this lease will be terminated.

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

Dixie Partners

The District entered into a ten year lease to lease space for the Immunization and Women's, Infant's and Children's program at a new location on the Gulf Freeway in Dickinson, Texas. The lease commenced on April 23, 2009 and will expire on April 23, 2019. Minimum lease payments are \$5,000 per month for years one through five and \$5,500 per month in years six through ten.

The District incurred lease expenditures of \$752,917 and 748,380 during the years ended September 30, 2009 and September 30, 2008, respectively.

Total minimum lease payments for the next four years are as follows:

<u>Year</u>	<u>Minimum Lease Payments</u>
2010	\$ 763,644
2011	682,637
2012	392,036
2013	380,745
	<u>\$ 2,219,062</u>

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District's risk management program encompasses various means of protecting the District against loss by obtaining property, casualty and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the District in the risk pool is limited to the payment of premiums. Settled claims have not exceeded insurance coverage in any of the previous three fiscal years. There has not been any significant reduction in insurance coverage from that of the previous year.

NOTE 11 - RESERVED FUND BALANCE

The District has reserved/designated General Fund and Galveston County Coordinated Community Clinic Fund equity at September 30, 2009, for the following purposes:

GALVESTON COUNTY HEALTH DISTRICT

Exhibit A-6

NOTES TO FINANCIAL STATEMENTS

	<u>General</u>	<u>Galveston County Coordinated Community Clinics</u>
Reserved:		
Inventories	\$ 23,940	\$ 27,520
Prepaid items	46,991	16,758
IT Infrastructure/software upgrades	295,341	
Vehicle replacements	200,000	
Salary reserve	197,797	
Public Health equipment	40,000	
Electronic Medical Record System and Pharmacy Perpetual Inventory System		350,000
Medical/dental equipment		200,000
Computer replacements		125,000
Total Reserved Fund Balance	<u><u>\$ 804,069</u></u>	<u><u>\$ 719,278</u></u>
Designated:		
Operating reserves	\$ 1,100,000	\$ 796,318
4C's Texas City clinic renovation	921,014	
Total Designated Fund Balance	<u><u>\$ 2,021,014</u></u>	<u><u>\$ 796,318</u></u>

NOTE 12 - CONCENTRATIONS

Generally Accepted Accounting Principles require disclosure of concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor that meet certain criteria. The following concentrations with particular customers existed at the financial statement dates:

Galveston County

Approximately 34 percent and 37 percent of the District's revenues for the years ended September 30, 2009 and September 30, 2008, respectively, were provided by Galveston County.

Federal Government

Approximately 26 percent and 22 percent of the District's revenues for the years ended September 30, 2009 and September 30, 2008, respectively, were provided by the Federal Government.

REQUIRED SUPPLEMENTARY INFORMATION

GALVESTON COUNTY HEALTH DISTRICT

Exhibit B-1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

Year Ended September 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from Final Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Program services	\$ 2,025,206	\$ 2,025,206	\$ 2,010,848	\$ (14,358)
Intergovernmental				
Federal/state	3,071,135	3,071,135	3,279,239	208,104
Local	6,893,900	6,893,900	6,893,900	
Investment earnings	70,000	70,000	84,093	14,093
Total Revenues	<u>12,060,241</u>	<u>12,060,241</u>	<u>12,268,080</u>	<u>207,839</u>
<u>Expenditures</u>				
Current:				
Public health	3,438,750	3,438,750	3,444,517	(5,767)
Public health reimbursable	2,672,862	2,672,862	2,811,199	(138,337)
Animal services	806,474	806,474	813,519	(7,045)
Pollution control	869,748	869,748	808,233	61,515
Patient services	101,389	101,389	91,285	10,104
Debt Service:				
Principal retirement	28,400	28,400	28,361	39
Interest and fiscal charges	1,350	1,350	1,182	168
Total Expenditures	<u>7,918,973</u>	<u>7,918,973</u>	<u>7,998,296</u>	<u>(79,323)</u>
Excess of Revenues Over Expenditures	4,141,268	4,141,268	4,269,784	128,516
<u>Other Financing (Uses)</u>				
Transfers (out)	<u>(4,141,268)</u>	<u>(4,141,268)</u>	<u>(3,956,268)</u>	<u>185,000</u>
Total Other Financing (Uses)	<u>(4,141,268)</u>	<u>(4,141,268)</u>	<u>(3,956,268)</u>	<u>185,000</u>
Net Change in Fund Balance			313,516	313,516
Fund balances - Beginning	<u>2,713,003</u>	<u>2,713,003</u>	<u>2,713,003</u>	
Fund Balances - Ending	<u>\$ 2,713,003</u>	<u>\$ 2,713,003</u>	<u>\$ 3,026,519</u>	<u>\$ 313,516</u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit B-2

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GALVESTON COUNTY COORDINATED COMMUNITY CLINICS FUND

Year Ended September 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from Final Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Program services	\$ 1,607,202	\$ 1,712,856	\$ 1,591,730	\$ (121,126)
Intergovernmental				
Federal/state	1,740,426	1,863,111	2,038,199	175,088
Local	25,000	25,000	89,970	64,970
Investment earnings	42,500	42,500	63,196	20,696
Total Revenues	<u>3,415,128</u>	<u>3,643,467</u>	<u>3,783,095</u>	<u>139,628</u>
<u>Expenditures</u>				
Current:				
Patient services (primary care)	7,392,135	7,620,474	7,203,966	416,508
Debt Service:				
Principal retirement	38,573	38,573	39,705	(1,132)
Interest and fiscal charges	2,788	2,788	1,655	1,133
Total Expenditures	<u>7,433,496</u>	<u>7,661,835</u>	<u>7,245,326</u>	<u>416,509</u>
(Deficiency) of Revenues (Under) Expenditures	(4,018,368)	(4,018,368)	(3,462,231)	556,137
<u>Other Financing Sources</u>				
Transfers in	4,018,368	4,018,368	3,956,268	(62,100)
Total Other Financing Sources	<u>4,018,368</u>	<u>4,018,368</u>	<u>3,956,268</u>	<u>(62,100)</u>
Net Change in Fund Balance			494,037	494,037
Fund balances - Beginning	1,696,706	1,696,706	1,696,706	
Fund Balances - Ending	<u>\$ 1,696,706</u>	<u>\$ 1,696,706</u>	<u>\$ 2,190,743</u>	<u>\$ 494,037</u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit B-3

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GALVESTON AREA AMBULANCE AUTHORITY FUND**

Year Ended September 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from Final Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Program services	\$ 4,022,846	\$ 4,022,846	\$ 3,511,947	\$ (510,899)
Intergovernmental				
Local	1,770,000	1,979,000	2,820,373	841,373
Investment earnings	20,000	20,000	28,185	8,185
Total Revenues	<u>5,812,846</u>	<u>6,021,846</u>	<u>6,360,505</u>	<u>338,659</u>
<u>Expenditures</u>				
Current:				
Ambulance services	5,466,587	5,675,587	5,089,155	586,432
Debt Service:				
Principal retirement	292,434	292,434	182,395	110,039
Interest and fiscal charges	19,825	19,825	9,672	10,153
Capital Outlay	<u>374,000</u>	<u>374,000</u>	<u>377,948</u>	<u>(3,948)</u>
Total Expenditures	<u>6,152,846</u>	<u>6,361,846</u>	<u>5,659,170</u>	<u>702,676</u>
(Deficiency) of Revenues (Under) Expenditures	(340,000)	(340,000)	701,335	1,041,335
<u>Other Financing Sources</u>				
Issuance of debt	<u>340,000</u>	<u>340,000</u>	<u>119,960</u>	<u>(220,040)</u>
Total Other Financing Sources	<u>340,000</u>	<u>340,000</u>	<u>119,960</u>	<u>(220,040)</u>
Net Change in Fund Balance			821,295	821,295
Fund balances - Beginning	<u>462,212</u>	<u>462,212</u>	<u>462,212</u>	
Fund Balances - Ending	<u>\$ 462,212</u>	<u>\$ 462,212</u>	<u>\$ 1,283,507</u>	<u>\$ 821,295</u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit B-4

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

A. Budgets and Budgetary Accounting

An annual appropriated budget is adopted for all of the District's funds with the exception of the Other Grants Fund, which is used for reimbursable operations. The budgets are prepared on a basis consistent with generally accepted accounting principles. The legal level of compliance is at the fund level. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not utilized.

GALVESTON COUNTY HEALTH DISTRICT

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM **SCHEDULE OF FUNDING PROGRESS**

The District's annual covered payroll and annual pension costs are actuarially valued on a calendar year basis. Because the District makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below was determined as part of the actuarial valuation as of December 31, for each period presented.

Calendar Year	<u>2008</u>	<u>2007</u>
Actuarial Value of Assets	\$ 596,892	\$
Actuarial Accrued Liability	\$ 1,390,412	\$ 814,041
Percentage Funded	42.9%	0.0%
Unfunded or (Overfunded) Actuarial Accrued Liability	\$ 793,520	\$ 814,041
Annual Covered Payroll	\$ 10,125,279	\$ 9,273,144
Unfunded or (Overfunded) Actuarial Accrued Liability as a Percentage of Covered Payroll	7.8%	8.8%

OTHER SUPPLEMENTARY INFORMATION

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GALVESTON COUNTY HEALTH DISTRICT

Exhibit C-1

SCHEDULE OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND

Year Ended September 30, 2009

with Comparative Actual Amounts for the Year Ended September 30, 2008

	2009				2008 Actual
	Budgeted Amounts		Actual	Variance from Final Positive (Negative)	
	Original	Final			
Revenues					
Program services					
Public health	\$ 1,461,360	\$ 1,461,360	\$ 1,404,067	\$ (57,293)	\$ 1,430,106
Animal services	457,468	457,468	494,169	36,701	460,020
Pollution control	106,378	106,378	112,612	6,234	101,669
	<u>2,025,206</u>	<u>2,025,206</u>	<u>2,010,848</u>	<u>(14,358)</u>	<u>1,991,795</u>
Intergovernmental					
Federal/state					
Public health			50,101	50,101	
Public health reimbursable	2,618,750	2,618,750	2,823,996	205,246	2,416,109
Animal services			8,700	8,700	2,646
Pollution control	452,385	452,385	396,442	(55,943)	406,145
	<u>3,071,135</u>	<u>3,071,135</u>	<u>3,279,239</u>	<u>208,104</u>	<u>2,824,900</u>
Local - Galveston County	6,893,900	6,893,900	6,893,900		6,586,193
Investment earnings	70,000	70,000	84,093	14,093	92,492
Total Revenues	<u>\$ 12,060,241</u>	<u>\$ 12,060,241</u>	<u>\$ 12,268,080</u>	<u>\$ 207,839</u>	<u>\$ 11,495,380</u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit C-2

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL GENERAL FUND

Year Ended September 30, 2009

with Comparative Actual Amounts for the Year Ended September 30, 2008

<u>Function</u>	<u>2009</u>				<u>2008</u> <u>Actual</u>
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u> <u>from Final</u> <u>Positive</u> <u>(Negative)</u>	
	<u>Original</u>	<u>Final</u>			
Public Health					
Personnel services	\$ 2,578,828	\$ 2,578,828	\$ 2,590,717	\$ (11,889)	\$ 2,450,223
Supplies	210,722	210,722	152,915	57,807	258,066
Contractual services	88,100	88,100	69,535	18,565	63,610
Other	561,100	561,100	613,320	(52,220)	609,421
Capital outlay			18,030	(18,030)	34,911
	<u>3,438,750</u>	<u>3,438,750</u>	<u>3,444,517</u>	<u>(5,767)</u>	<u>3,416,231</u>
Public Health Reimbursable					
Personnel services	2,258,778	2,258,778	1,927,212	331,566	1,835,699
Supplies	28,300	28,300	190,680	(162,380)	142,747
Contractual services	193,200	193,200	282,258	(89,058)	210,072
Other	192,584	192,584	224,024	(31,440)	203,201
Capital outlay			187,025	(187,025)	55,420
	<u>2,672,862</u>	<u>2,672,862</u>	<u>2,811,199</u>	<u>(138,337)</u>	<u>2,447,139</u>
Animal Services					
Personnel services	630,204	630,204	596,386	33,818	566,273
Supplies	73,200	73,200	95,152	(21,952)	75,854
Contractual services	27,320	27,320	29,938	(2,618)	28,029
Other	75,750	75,750	92,043	(16,293)	86,937
Capital outlay					31,970
	<u>806,474</u>	<u>806,474</u>	<u>813,519</u>	<u>(7,045)</u>	<u>789,063</u>
Pollution Control					
Personnel services	777,388	777,388	649,749	127,639	606,773
Supplies	14,740	14,740	36,053	(21,313)	21,042
Contractual services	6,250	6,250	5,571	679	7,226
Other	71,370	71,370	75,564	(4,194)	68,349
Capital outlay			41,296	(41,296)	5,494
	<u>869,748</u>	<u>869,748</u>	<u>808,233</u>	<u>61,515</u>	<u>708,884</u>
Patient Services (Indigent Care)					
Personnel services	72,068	72,068	66,205	5,863	51,633
Supplies	2,021	2,021	645	1,376	2,163
Contractual services	3,000	3,000	2,715	285	3,742
Other	24,300	24,300	21,720	2,580	21,695
	<u>101,389</u>	<u>101,389</u>	<u>91,285</u>	<u>10,104</u>	<u>79,233</u>
Debt Service					
Principal	28,400	28,400	28,361	39	26,756
Interest	1,350	1,350	1,182	168	2,787
	<u>29,750</u>	<u>29,750</u>	<u>29,543</u>	<u>207</u>	<u>29,543</u>
Total Expenditures	<u>\$ 7,918,973</u>	<u>\$ 7,918,973</u>	<u>\$ 7,998,296</u>	<u>\$ (79,323)</u>	<u>\$ 7,470,093</u>

GALVESTON COUNTY HEALTH DISTRICT

Exhibit C-3

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GAAP BASIS TO FINANCIAL STATUS REPORT BASIS COMPARISON

GALVESTON COUNTY COORDINATED COMMUNITY CLINICS FUND

Year Ended September 30, 2009

	<u>GAAP Basis</u>	<u>Donated Services</u>	<u>Balance per Financial Status Report</u>
<u>Revenues</u>			
Program services	\$ 1,591,730	\$	\$ 1,591,730
Intergovernmental			
Federal/state	2,038,199		2,038,199
Local	89,970	110,415	200,385
Investment earnings	63,196		63,196
Total Revenues	<u>3,783,095</u>	<u>110,415</u>	<u>3,893,510</u>
<u>Expenditures</u>			
Current:			
Patient services			
Personnel services	4,921,551	81,753	5,003,304
Supplies	636,146		636,146
Contracted services	692,719		692,719
Other	858,443	28,662	887,105
Debt Service:			
Principal retirement	39,705		39,705
Interest and fiscal charges	1,655		1,655
Capital Outlay	95,107		95,107
Total Expenditures	<u>7,245,326</u>	<u>110,415</u>	<u>7,355,741</u>
(Deficiency) of Revenues (Under) Expenditures	(3,462,231)		(3,462,231)
<u>Other Financing Sources</u>			
Transfers in	3,956,268		3,956,268
Total Other Financing Sources	<u>3,956,268</u>		<u>3,956,268</u>
Net Change in Fund Balance	494,037		494,037
Fund balances - Beginning	1,696,706		1,696,706
Fund Balances - Ending	<u>\$ 2,190,743</u>	<u>\$</u>	<u>\$ 2,190,743</u>