

**North Central Texas
Emergency Communications District**

**Annual
Financial Report**



For the Ten Months
Ending
September 30, 2019



**NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS
DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE TEN MONTHS ENDING SEPTEMBER 30, 2019**

Executive Director
Mike Eastland



Deputy Executive Director
Monte Mercer, CPA
9-1-1 Program Director
Christy Williams

***PREPARED BY
NORTH CENTRAL TEXAS COUNCIL OF GOVERNMENTS
DEPARTMENT OF ADMINISTRATION***

Molly Rendon, Director of Administration
Randy Richardson, CPA, Sr. Fiscal Manager
Norman Marquart, Fiscal Manager



NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

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September 30, 2019

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**Introductory
Section**







The Board of Managers
North Central Texas Emergency Communications District
Arlington, Texas

February 21, 2020

Members of the Board of Managers:

The Annual Financial Report of the North Central Texas Emergency Communications District (NCT9-1-1, ‘the District’) for the ten (10) month period ended September 30, 2019, is hereby submitted. This report was prepared for the District by the North Central Texas Council of Governments (the NCTCOG) Department of Administration as Fiscal Agent for the District. The District is presented as a discrete component unit of the NCTCOG Consolidated Annual Financial Report (CAFR). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the NCTCOG’s Administration management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is organized in a manner designed to fairly present the financial position and results of operations of the District as measured by the financial activity of its General Fund. We believe that all disclosures necessary to enable the reader to gain the maximum understanding of the District’s financial affairs have been included.

The Annual Financial Report includes the Management Discussion and Analysis (MD&A) within the financial section immediately following the independent auditor’s report. The MD&A is a narrative introduction, overview and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The Financial Section described above is prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB) and other professional associations as applicable.

Organizational Profile

The District was created pursuant to Chapter 772, Subchapter H, of the Texas Health and Safety Code as amended by the 84th Legislature, through passage of resolutions by County Commissioners Courts and City Councils within the District service area. The District began operations on December 3, 2018.

Texas Health and Safety Code Sec. 772.609 established that the North Central Texas Council of Governments (NCTCOG, COG or Agency) shall be the fiscal and administrative agent on behalf of the District. District bylaws Article IV Administration 4.1 states the Executive Director of the North Central Texas Council of Governments (NCTCOG) shall serve as the Executive Director of the District and be empowered to employ and compensate professional staff to perform duties of the District, which shall remain employees of the North Central Texas Council of Governments for all purposes.

The District is a political subdivision of the State of Texas. Its purpose is to carry out essential governmental functions related to the provisioning of emergency communications services. The District is engaged in the

planning, implementation, and maintenance of an emergency 9-1-1 system for more than 40 Public Safety Answering Points within its 9-1-1 service area.

The District service area consists of Collin, Ellis, Erath, Hood, Hunt, Johnson, Kaufman, Navarro, Palo Pinto, Parker, Rockwall, Somervell, and Wise counties, as well as the Dallas County cities of Balch Springs, Cockrell Hill, Sachse, Seagoville, and Wilmer.

The District is governed by a Board of Managers (Board), consisting of elected officials. Each member county may have one Board member, with the exception of the largest county by population. The Board may be comprised of a maximum of 19 members.

The County Judge of each member county has responsibility to notify the District of their Board member appointment, except that each member city in Collin County with a PSAP shall be responsible for notifying of its Board member's appointment and the member cities in Dallas County shall be responsible for mutually agreeing to and notifying of their Board member's appointment. Each Board member's term of office is two years. Terms are staggered with half of the initial Board serving a one-year initial term.

Economic Condition and Outlook

The District's regional population increased by approximately 53,760 persons during 2019 (3.17%) for a January 1, 2020 total estimated population of 1.75 million.

The overall State population increased by 1.32%.

District Current Year Accomplishments and Next Years Outlook

December 3rd marked the first anniversary of the North Central Texas Emergency Communications District (The District). During our first year as a district, a Board of Managers was created, a Strategic Advisory Committee was appointed, and the District joined and participated in the Texas 9-1-1 Alliance. The District hosted Regional Telecommunicator Academy classes 007 and 008, added Lifecare EMS in Parker County as a secondary PSAP and completed implementation of a SD WAN solution for network diversity and dynamic routing.

The GIS team completed the multi-year transition from Enterprise Geospatial Data Management System (EGDMS) to the newly created Regional GIS Data Quality Control process at a cost of \$115,000 and implemented a new county disbursement model. The new disbursement model resulted in \$326,000 in GIS reimbursements to the Counties.

The Technology team completed multiple projects within fiscal year 2019 including replacing Uninterrupted Power Sources (UPS) at thirty-five (35) sites at a cost of \$939,000, the multi-year microwave network project costing \$518,000 and the replacement of call handling equipment at PSAPs costing \$243,000.

The Strategic Services team executed new Interlocal Agreements for all PSAPs. The Operations team completed a Quality Assurance resource document and the Data team conducted Real Time Text (RTT) research, testing, outreach and training. The Support team worked behind the scenes and assisted in many of the completed projects.

The District focused on PSAP engagement this year. Regular efforts ensured PSAPs have greater awareness and more communications. The staff brought in companies to talk about new technologies, hosted PSAP focus groups on relevant issues, and included PSAP feedback in product development and implementation. A "Generational Advisory Board" was created this year in an effort to create a culture that

will attract and retain Millennials and Gen Z to our workforce and assist in retaining current employees. This concept has been well-received, and we hope to expand the scope to PSAPs in the coming years.

The District introduced optional services for the PSAPs this year with Waze and flood warning sensors. In addition, the District entered into a contract for Data Analytics with a company that is revolutionizing the way the District has historically provided call statistics through reporting. Phase I has been completed utilizing \$1,250,000 in final State funding from the Commission on State Emergency Communications (CSEC) in fiscal year 2019 and the PSAPs now have improved reporting with a user-friendly platform to run reports and access a dashboard of near real time information. The next phase will allow the District to review the health of all our systems. Future phases of this project will utilize District funding.

The FCC adopted rules that will help first responders locate people who call 911 from wireless phones in multi-story buildings, such as apartments and offices. The new rules will help emergency responders determine the floor level of a 911 caller. Specifically, wireless providers must transmit the caller's vertical location, within three meters above or below the phone, to the 911 call center. This requirement will help emergency responders more accurately identify the floor level for most 911 calls. However, this is only the beginning. To make the data actionable, local 9-1-1 entities will need to enhance their GIS offerings and begin to implement floor plans and/or 3D mapping. The District, as an early adopter, has begun planning for these new rules.

As the District's focus in fiscal year 2020, will be resiliency. The District's goal for resiliency will be achieved by being reflective, resourceful, robust, and redundant. Systems and processes will be examined in order to be efficient, inclusive, and interoperable; while continuing to mitigate risks. This requires the willingness and ability to adopt alternative strategies in response to changing circumstances. The District will measure success as the capacity of the District to survive, adapt and grow; regardless of the chronic stress of the industry and the acute shocks of service interruptions and temporary financial limitations.

Factors Affecting Financial Condition

NCTCOG is the fiscal and administrative agent for the District, in accordance with Sec. 772.609 of the Health and Safety Code. As the Fiscal Agent, the District utilizes NCTCOG financial systems. As a recipient of federal, state, and local government financial assistance, NCTCOG is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. Internal controls are subject to periodic evaluation by management. NCTCOG staff continues to evaluate internal controls and implement recommendations to strengthen controls and minimize risk.

In developing and evaluating the Council's accounting system, consideration is given to the adequacy of internal control. Internal control is designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability or assets. The concept of reasonable assurance recognized that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. It is believed that NCTCOG's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The District's annual budget is a management tool that assists in analyzing financial activities during the fiscal year. The annual budget is reviewed and adopted by the Board of Managers prior to the beginning of the fiscal year. The approved annual budget is used as a control device for the General Fund. The District's fiscal year 2020 budget is funded with expected collections from Wireless and Landline emergency

communications fees collected from telephone providers in the District's operating area. Opportunities for any new funding will be presented to the Board of Managers for consideration.

Other Information

Independent Audit

NCTCOG, as fiscal and administrative agent for the District, is responsible for the arrangement of an independent audit of the District's financial records as part of the NCTCOG audit in accordance with generally accepted auditing standards. NCTCOG is required by its bylaws to have an annual audit comprised of the fiscal records, and all transactions by a certified public accountant selected by and responsible to NCTCOG's Executive Board. In conjunction with the NCTCOG annual independent audit, a separate and distinct audit report is completed by the selected NCTCOG audit firm for the District financial transactions. Whitley Penn was selected and awarded a five (5) year contract to perform the NCTCOG financial audits beginning in Fiscal Year 2018.

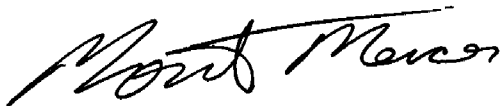
Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the District staff. Appreciation is expressed to those who assisted and contributed to its preparation. The Board of Managers is also commended for their interest and support in planning and conducting the financial operations of the District in a responsible and progressive manner.

Acknowledgment is also given to the representatives of Whitley Penn LLP for their invaluable assistance in producing the final document.



Mike Eastland
Executive Director



Monte Mercer, CPA
Deputy Executive Director



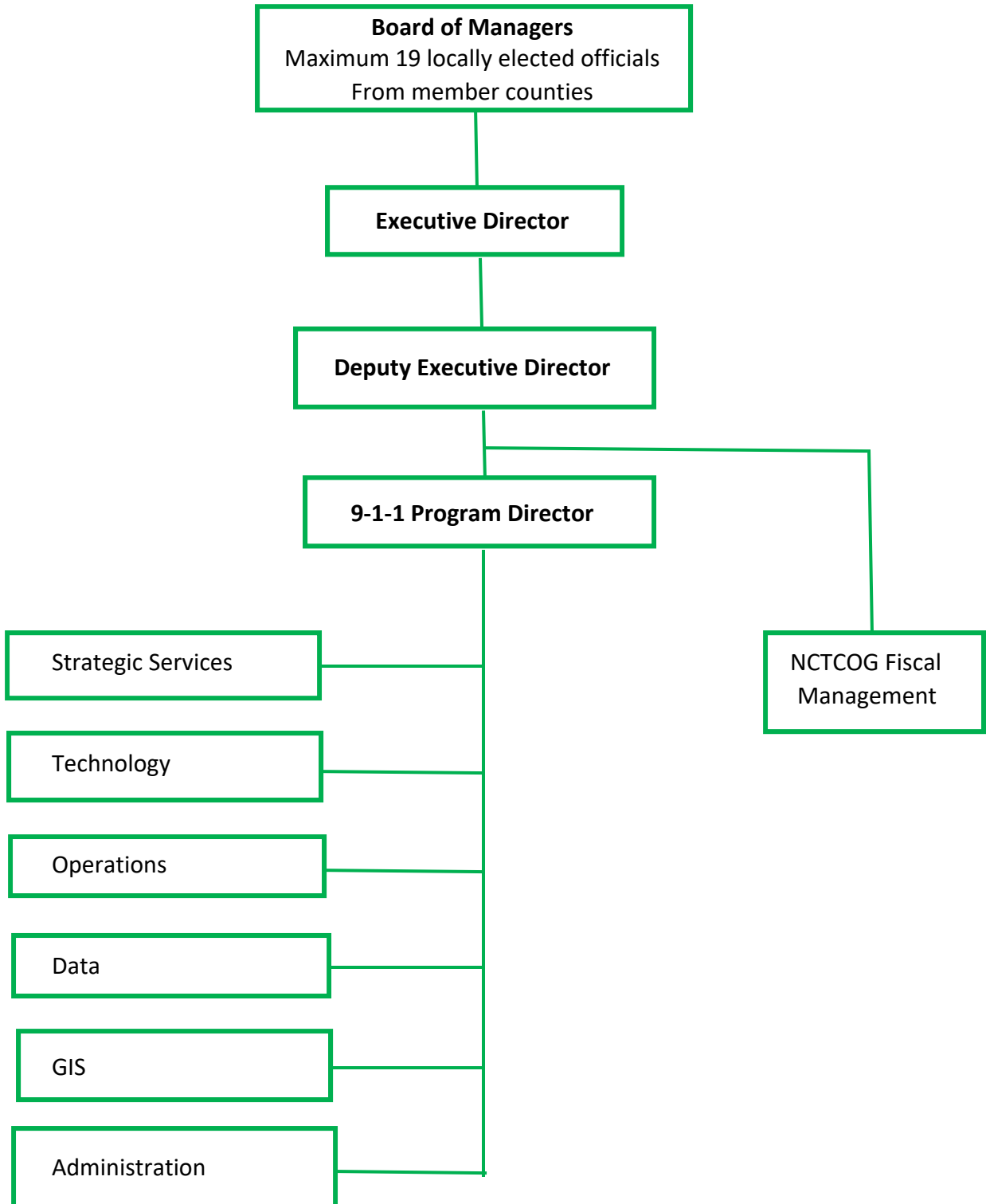
Christy Williams
9-1-1 Program Director



Molly Rendon
NCTCOG Director of Administration

Organizational Chart

North Central Texas Emergency Communications District



NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

2019 – 2020 BOARD OF MANAGERS

<u>Board President</u> Mayor Stephen Terrell City of Allen	
<u>Board Vice-President</u> Commissioner Jerry Stringer Johnson County	<u>Board Secretary</u> Sheriff Roger Deeds Hood County

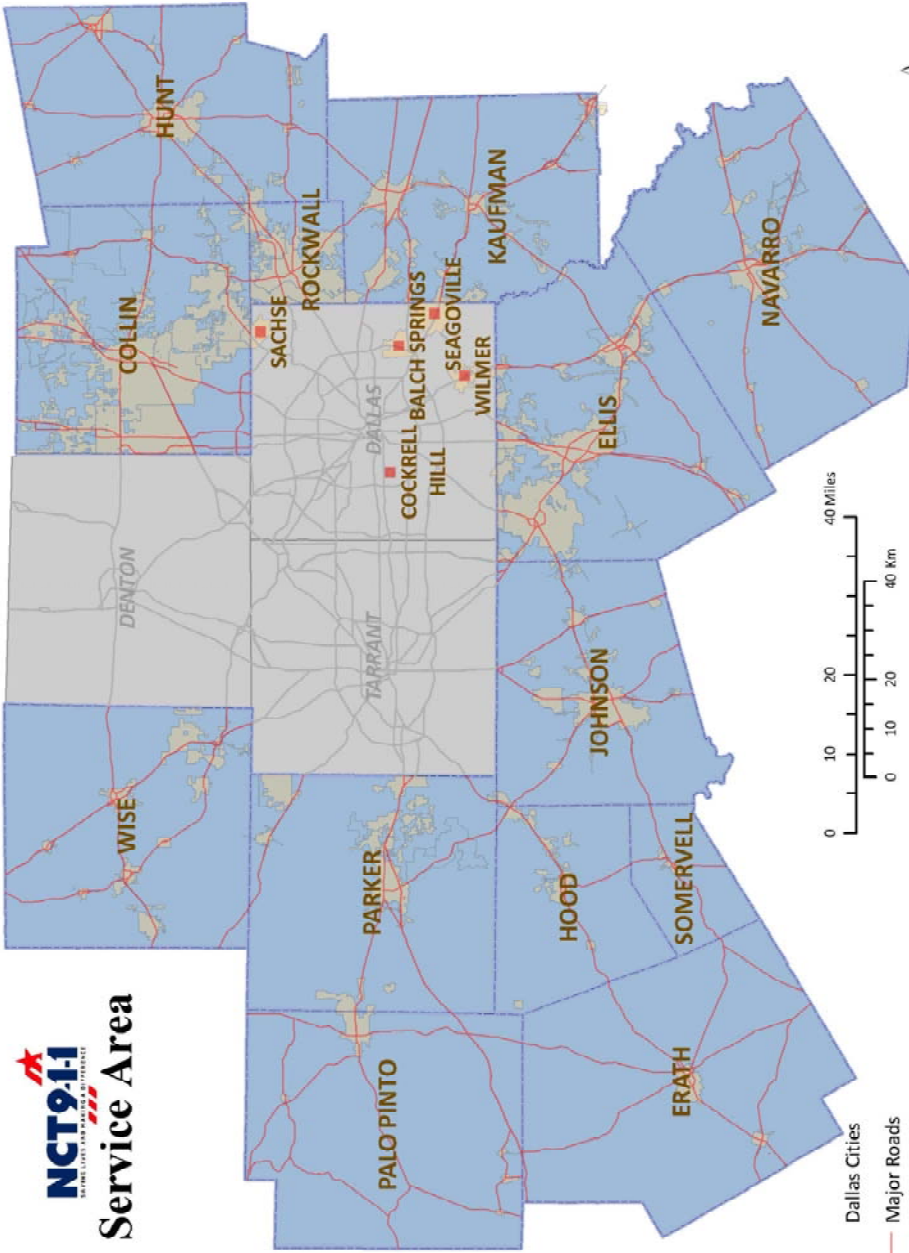
Members

Sheriff N. Lane Akin Wise County	Mayor Pro Tem Jennifer Berthiaume City of Murphy
Judge Danny Chambers Somervell County	Sheriff Matt Coates Erath County
Judge Kerry Crews Hunt County	Judge Pat Deen Parker County
Sheriff Harold Eavenson Rockwall County	Mayor Steven Gorwood City of Balch Springs (Represents Cities of Balch Springs, Cockrell Hill, Sachse, Seagoville, & Wilmer)
Councilmember Jeff Hodges City of Prosper	Judge Shane Long Palo Pinto County
Judge Hal Richards Kaufman County	Councilmember La’Shadion Shemwell City of McKinney
Sheriff Jim Skinner Collin County	Councilmember Will Sowell City of Frisco
Commissioner Randy Stinson Ellis County	Navarro County

District Management Staff

Executive Director R. Michael Eastland	Deputy Executive Director Monte Mercer	9-1-1 Program Director Christy Williams
Strategic Services Jessie Shadowens-James	Technology Clay Dilday	Operations Sherry Decker
Data LeAnna Russell	GIS Rodger Mann	Administration Hilaria Perez
NCTCOG Director of Administration Molly Rendon	NCTCOG Fiscal Management Norman Marquart	

NCT9-1-1
EMERGENCY AND PUBLIC SAFETY
Service Area



- Dallas Cities
- Major Roads
- NCT9-1-1 Cities
- Service Area

By NCT9-1-1 GIS Team
For questions, contact 911GISTeam@nctcoag.org
Projection: NAD 1983 StatePlane Texas - FIPS 4202 (feet)
Note: Only cities covered by NCT9-1-1 are shown.



**Financial
Section**





REPORT OF INDEPENDENT AUDITORS

To the Board of Managers
North Central Texas Emergency Communications District
Arlington, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund information of North Central Texas Emergency Communications District (the “District”), a component unit of North Central Texas Council of Governments (the “Council”) as of and for the ten months ended September 30, 2019, 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 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 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 District’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 District’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.

To the Board of Managers
North Central Texas Emergency Communications District

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 major fund information of the District, as of September 30, 2019, and the respective changes in financial position and cash flows thereof for the ten months 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 on pages 3-8 and budgetary comparison information on pages 28-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2020 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Whitley Penn LLP

Fort Worth, Texas
February 21, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS



NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the North Central Texas Emergency Communications District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the Ten (10) months ending September 30, 2019. This is the 1st year of operations for the District therefore there is no comparison to prior years activity in this report. This first year is comprised of only ten (10) months instead of twelve (12) due to the District being formed in December 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - iv of this report.

Financial Highlights

- District's assets exceeded liabilities at the close of the most recent fiscal year by \$6,511,262 (*net position*). Of this amount \$710,574 (unrestricted net position) may be used to meet the government's ongoing obligations to creditors and service implementation.
- The portion of net position invested in capital assets total \$5,698,577 and is primarily due to transfer of assets from NCTCOG to the District at creation in accordance with Texas Health and Safety Code 772.622. The transfer totaled \$8,145,429 less accumulated depreciation totaling \$3,222,555, resulting in net capital assets totaling \$4,922,874.
- The District's General Fund reported ending fund balances of \$812,685. A portion of these funds totaling \$710,574 are available for spending at the government's discretion.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include two components: 1) government-wide financial statements, which include the fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator regarding whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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., earned but unused vacation leave).

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 District currently only utilize a General Fund.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Funds. *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 *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 governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *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 financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains one governmental fund (General Fund). Information is presented as one fund in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13 and 14 of this report.

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 12-27 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplemental information*. Required supplemental information can be found on pages 28-30 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the NCT9-1-1, total assets exceeded liabilities by \$6,511,262 at the close of the most recent fiscal year. Because this is the first year of operations, the District is only presenting current year condensed financial statements. Following is a summary of the Government-wide Statement of Net Position:

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

CONDENSED SCHEDULE OF NET POSITION

Governmental Activities

September 30, 2019

	<u>2019</u>
Current and other assets	\$ 1,984,127
Capital assets, net of accumulated depreciation	<u>5,698,577</u>
Total Assets	7,682,704
Other liabilities	1,171,442
Total Liabilities	<u>1,171,442</u>
Net Position	
Net investment in capital assets	5,698,577
Unrestricted	<u>812,685</u>
Total Net Position	<u><u>\$ 6,511,262</u></u>

A significant portion of the District's net position, \$5,698,577, (88%), reflects its investment in capital assets (e.g., equipment).

Unrestricted net position of \$812,685 (12%) may be used to meet the government's ongoing obligations to creditors and for service implementation.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

CONDENSED SCHEDULE OF CHANGES IN NET POSITION

Governmental Activities

For the Ten Months Ending September 30, 2019

	<u>2019</u>
Revenues	
9-1-1 Service Fees	\$ 8,090,403
Local Contributions	<u>8,145</u>
Total Revenue	8,098,548
Expenses	
Labor & Labor Related	3,249,767
NCTCOG Fiscal Agent Costs	267,157
Cost of Operations	2,561,359
Local Government Reimbursements	334,011
Depreciation	<u>3,320,421</u>
Total Expenses	9,732,715
Increase (decrease) in net position	(1,634,167)
Special Items	
Transfer of Assets from NCTCOG	8,145,429
Net position - beginning	0
Net position - ending	<u><u>\$ 6,511,262</u></u>

Significant components of the net position activity are as follows:

Governmental activities total revenues are comprised of the following components:

- 9-1-1 service fees are collected from emergency communications fees imposed on telephone service providers. This is the primary revenue for the District's operation. There are two (2) separate type of fees collected:
 - Wireless – These are collected on wireless phones and prepaid phones. The telephone providers submit the fees to the Texas Comptroller. The fees are distributed to the separate 9-1-1 districts within Texas based on the relative percentage of the population of each District compared to the entire state. Current year revenue totaled \$6,771,651 or 84% of total service fees collected.
 - Landline – These fees are sent directly to NCT9-1-1 by the telephone providers located within our region. The current year revenue totaled \$1,318,752 or 16% of total service fees collected.
- Local contributions are funds collected by various sources for special events or projects. This is not a significant portion of the District's revenue.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental activities total expenses include operating expenses totaling \$6,412,293 and depreciation expense totaling \$3,320,421. Key elements of the operating expenses are as follows:

- Labor and labor related costs includes salaries, fringe benefits, NCTCOG indirect costs, rent and facility charges, NCTCOG network services allocation and travel. These costs are for the District direct staff totaled \$3,249,767 for Fiscal Year 2019.
- NCTCOG was established as the fiscal agent for the District in December 2018 (See Note E on page 24 of this report). These costs include accounting, legal and marketing costs for the District. NCTCOG fiscal agent costs for the year totaled \$267,157.
- Cost of operations are direct operating costs for the District totaling \$2,561,359. Key elements of this category include:
 - 9-1-1 Network \$1,202,972 – costs include software maintenance, data and phone connections, security elements for the network, and fleet management.
 - Contract services \$586,138 – Consultants utilized for their expertise.
 - Equipment maintenance \$350,634 – Software and equipment maintenance agreements.
 - Data center leases \$123,865 – lease and utilities for two (2) off-site data centers.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 financial requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$812,685. This total amount includes an unassigned fund balance totaling \$710,574, which is available for spending at the government's discretion. The General Fund is the chief operating fund of the District. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. Unassigned and total fund balance represents approximately 11% of total governmental fund expenditures.

General Fund. The fund balance of the District's General Fund was \$812,685 during the current fiscal year.

General Fund Budgetary Highlights

The Fiscal Year 2019 budget was based on the twelve (12) month NCTCOG budget as it related to the Commission on State Emergency Communications (CSEC) State program. The District budget was 10/12 of the NCTCOG budget. The budget did not reflect any fund balance at the end of the current fiscal year. The actual fund balance totaled \$812,685. The District transitioned from the CSEC program in Fiscal Year 2019, to a funding model that allowed for a fund balance.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Asset and Long-Term Liability Administration

Capital assets. The District's investment in capital assets as of September 30, 2019 totaled \$5,698,577 (net of accumulated depreciation). This investment in capital assets includes equipment and leasehold improvements. Net capital assets totaling \$4,922,874 is reflected of transferred assets from NCTCOG. The remaining capital assets totaling \$775,703 was accumulated by the District in Fiscal Year 2019.

Detailed information on the District's capital assets can be found in Note F on page 25 of this report.

Economic Factors and Next Year's Budgets and Rates

The District is primarily funded with emergency service fees collected by telephone providers in our region. Fiscal Year 2020 is the District's first budget outside of the CSEC State program. Revenues for fiscal year 2020 are projected to total \$10,500,000 as follows:

- \$8,300,000 or (79%) projected from wireless providers. These revenues are first sent to the Texas Comptroller then distributed to the regions according to the relative percentage of their individual populations compared to the State total population.
- \$2,200,000 or (21%) projected from landline providers. Landline revenue is sent directly to the District from the telephone providers.

The District continues to ensure that the telephone provider fees are collected as accurately as possible.

Service fee rates for wireless providers is set by the Texas Legislature. Current rate is \$.50 per line. Landline rates are set by each District with a State legislative maximum of \$.50 per line. The District's rate has been approved by the Board at the maximum of \$.50 per line.

District expenses are projected to total \$10,459,266 for Fiscal Year 2020 resulting in a projected increase to fund balance of \$40,734. Salaries and fringe benefits totaling \$3,227,654 (31%) account for the largest portion of the operating budget followed by network costs totaling \$1,988,790 (20%).

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Administration, North Central Texas Council of Government, P.O. Box 5888, Arlington, Texas, 76005-5888. This report is also available on the District website, <https://www.nct911.org> and NCTCOG website, <https://www.nctcog.org>.

BASIC FINANCIAL STATEMENTS



NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
 STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
 SEPTEMBER 30, 2019

	General Fund	Adjustments	Government-Wide Net Position
Assets:			
Cash and Cash Equivalents	\$ 356,162		\$ 356,162
Receivables	1,525,854		1,525,854
Prepays and Other Assets	102,111		102,111
Capital Assets, net of accumulated depreciation		5,698,577	5,698,577
			-
Total Assets	1,984,127	5,698,577	7,682,704
Liabilities:			
Payable to NCTCOG	816,984		816,984
Accrued Expenses	34,535		34,535
Unearned Revenue	129,048		129,048
Deferred Inflow of Resources	190,875		190,875
Total Liabilities	1,171,442	-	1,171,442
Fund Balance / Net Position:			
Fund Balance			
Nonspendable	102,111	(102,111)	-
Unassigned	710,574	(710,574)	-
Subtotal Fund Balance	812,685.00	(812,685.00)	-
Net Position			
Net Investment in Capital Assets		5,698,577	5,698,577
Unrestricted		812,685	812,685
Subtotal Net Position	-	6,511,262	6,511,262
Total Fund Balance / Net Position	\$ 812,685	\$ 5,698,577	\$ 6,511,262

Adjustments are for capital assets. Capital assets used in governmental activities are not financial resources and therefore, are not reported in the General Fund.

See accompanying notes to the basic financial statements.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE TEN (10) MONTHS ENDING SEPTEMBER 30, 2019

	General Fund	Adjustments	Statement of Activities
Revenues			
Wireless Service Fees	\$ 6,771,651		\$ 6,771,651
Landline Service Fees	1,318,752		1,318,752
Local Contributions	8,145		8,145
Total Revenues	<u>8,098,548</u>	-	<u>8,098,548</u>
Expenditures / Expenses			
Labor & Labor Related	3,249,767		3,249,767
NCTCOG Fiscal Agent Costs	267,157		267,157
Cost of Operations	2,561,359		2,561,359
Capital Outlay	873,569	(873,569)	-
Local Government Reimbursements	334,011		334,011
Depreciation		3,320,421	3,320,421
Total Expenditures / Expenses	<u>7,285,863</u>	<u>2,446,852</u>	<u>9,732,715</u>
Change in Net Position	812,685	(2,446,852)	(1,634,167)
Fund Balance / Net Position			
Special Item (Transfer of Assets from NCTCOG)	-	8,145,429	8,145,429
Beginning	-		-
Ending	<u>\$ 812,685</u>	<u>\$ 5,698,577</u>	<u>\$ 6,511,262</u>

Adjustments:

General Fund reports capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the 10 Months Ending September 30, 2019

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The North Central Texas Emergency Communications District (District) was created pursuant to Chapter 772, Subchapter H, of the Texas Health and Safety Code as amended by the 84th Legislature, through passage of resolutions by County Commissioners Courts and City Councils within the District's service area. The District began operations on December 3, 2018. The District is a political subdivision of the State.

Summary of Significant Accounting Policies

Texas Health and Safety Code Sec. 772.609 established that the North Central Texas Council of Governments (NCTCOG) shall be the fiscal and administrative agent on behalf of the District. District bylaws Article IV Administration 4.1 states the Executive Director of the NCTCOG shall serve as the Executive Director of the District and be empowered to employ and compensate professional staff to perform NCT9-1-1 duties, which shall remain employees of the NCTCOG for all purposes. The accounting and reporting policies of NCTCOG relating to the funds included within the accompanying basic financial statements conform in all material respects to accounting principles generally accepted in the United States of America and applicable to state and local governments.

The following significant accounting policies were applied in the preparation of the accompanying basic financial statements:

Reporting Entity

Primary Government

The District is a political subdivision of the State. Its purpose is to carry out essential governmental functions related to the provisioning of emergency communications services. The District is engaged in the planning, implementation, and maintenance of an emergency 9-1-1 system for more than forty (40) Public Safety Answering Points (PSAPs) within its 9-1-1 service area. The District service area consists of Collin, Ellis, Hood, Hunt, Johnson, Kaufman, Navarro, Palo Pinto, Parker, Rockwall, Somerville, and Wise Counties, as well as the Dallas County cities of Balch Springs, Cockrell Hill, Sachse, Seagoville, and Wilmer.

The District is governed by a Board of Managers (Board), consisting of elected officials. Each member county may have one Board member, with the exception of the largest county by population, which may have up to six (6) Board members. In addition, one Board member represents an entity that serves as a PSAP. The Board is comprised of a maximum of nineteen (19) members.

The County Judge of each member county has responsibility to notify the District of their Board member appointment. An exception to this is regarding Collin and Dallas counties. Regarding Collin County, each member city in Collin County with a PSAP is responsible for notifying the District its Board members appointment. Regarding Dallas County, the member cities in Dallas County will be responsible for mutually agreeing to and notifying their Board members appointment to the District. Each Board member's term of office is two years. Terms are staggered with half of the initial Board serving a one-year initial term.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity (continued)

The financial reporting entity is determined in accordance with GASB No. 14 "The Financial Reporting Entity", as amended by GASB No. 39, "Determining Whether Certain Organizations are Component Units".

The District is a discreet component unit of the NCTCOG. As a discreet component unit, the accompanying financial statements are presented as a stand-alone entity from the NCTCOG.

Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Emergency communication fees are recognized as revenue in the year for which they are billed.

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental funds and proprietary funds. The District currently reports only one major fund (General Fund). The Special Revenue fund is not material to report as a major fund. There are no proprietary funds held by the District.

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

General Fund

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

Measurement Focus and Basis of Accounting

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

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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

The governmental fund type (General Fund) uses a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Their revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transactions can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable.

The major sources of revenue are emergency 9-1-1 fees collected from telephone providers in the District's service area according to Texas Health and Safety Code.

9-1-1 Service Fees Collected

Service fee revenue is recognized in the year for which they are billed. Service fee rates for wireless providers are determined according to the state of Texas Health and Safety Code Sec 771.0711. The current rate is \$0.50 per line. Local exchange access line (landline) rates are set by the District. Texas Health and Safety Code Sec. 772.615.(d) sets the maximum fee at \$.50 per line. The District Board of Managers have set the District landline rate at \$0.50 per line.

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District, before it has a legal claim to them, as when donations for specific activities are received before the qualifying event. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for the unearned revenue is removed from the balance sheet and revenue is recognized.

Local Contributed Cash

Contributions to special event programs from local participants and contributors are recognized as revenue when the event occurs, or expenditures are recognized for the event.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiscal Agent Support

Texas Health and Safety Code Sec. 772.609 established that the NCTCOG shall be the fiscal and administrative agent on behalf of the District. NCTCOG, acting as fiscal and administrative agent, provides the following services: accounting and reporting, procurement, accounts payable/receivable, human resources, payroll functions, coordination of annual independent audit, facilities coordination, provision of a depository, and investment functions.

NCTCOG policies and procedures are followed by the District for the fiscal and administrative agent functions provided by NCTCOG.

District bylaws Article IV Administration 4.1 states the Executive Director of the North Central Texas Council of Governments (NCTCOG) will serve as the Executive Director of the District and be empowered to employ and compensate professional staff to perform NCT9-1-1 duties, which will remain employees of the North Central Texas Council of Governments for all purposes. District staff are employees of the NCTCOG and are subject to NCTCOG employee policies.

Leave Policies

Employees eligible for leave include (1) full-time employees and (2) part-time employees that work a minimum of 20 hours per week.

Based on full time or part time accrual rates employees may accrue, during the first five years of employment, up to ten (10) days of vacation leave per year. During the second five years of employment, an employee accrues up to fifteen (15) days per year, and after ten years of employment, up to twenty (20) days per year. The maximum of unused vacation leave a full-time and eligible part-time employee may accumulate is the number of days, which the employee would accumulate in three (3) years at their current accrual rate. Upon termination of employment from the NCTCOG, an employee will be paid for unused vacation leave not to exceed the maximum amount normally accrued based on hire date. Specific information related to vacation accrual is available for reviewing the NCTCOG personnel manual. No provision has been made in the financial statements for accrued vacation. The vacation liability is reflected the NCTCOG Consolidated Annual Financial Report.

NCTCOG's sick leave policy permits the accumulation of ten (10) sick days per year up to a maximum of ninety (90) days. Employees are not paid for unused sick days upon termination of employment. Accordingly, sick pay is charged to expenditures when taken. No provision has been made in the financial statements for unused sick leave. NCTCOG's General Fund is typically used to liquidate the liability for governmental activities' compensated absences. Long-term accrued compensated absences are not expected to be liquidated with expendable available financial resources and are not reported in the governmental fund financial statements.

Investments

During fiscal year 2019, the Board authorized NCTCOG to invest available District funds on behalf of the District according to the NCTCOG's investment policies and procedures.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

During this first year of operations, the District did not have any investments primarily due to generated revenues received totaling amounts only sufficient for payment of current obligations. The District fund balance goals as reflected within District policy FIN3.1 (Use of Funds).

NCTCOG invests in authorized investment pools and funds according to the Public Funds Investment Act as follows:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires NCTCOG to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize NCTCOG to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts and (10) common trust funds. The Act also requires NCTCOG to have independent auditors perform test procedures related to investment practices as provided by the Act. NCTCOG is in substantial compliance with the requirements of the Act and with local policies.

In accordance with GASB Statement No. 79, Certain External Investment Pools and Pool Participants, the Local Government Investment Pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates reporting under GASB Statement No. 72.

Prepaid Items

Prepaid balances are for payments made by the District for which benefits extend beyond September 30, 2019. The cost of the General Fund prepaid balances is recorded as an expenditure when consumed rather than when purchased.

Allocation of Employee Benefits and Indirect Costs

NCTCOG Employee Benefits and Indirect Costs are allocated based upon actual expenditures to all grants and programs in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2CFR200). NCTCOG employee benefits are allocated to projects based on a relative percentage of the direct labor costs charged to the individual project as compared to the total NCTCOG direct labor costs. Indirect costs necessary to sustain overall operations are allocated to individual projects based on the relative percentage of total direct labor costs and employee benefits charged to the particular project compared to the NCTCOG total direct labor and employee benefits. Contributions to Indirect Costs represent revenues that offset certain costs included in the Indirect Cost Pool. As employees of NCTCOG and as NCTCOG functioning as fiscal

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocation of Employee Benefits and Indirect Costs (continued)

agent, the District participates in the same allocations as other NCTCOG activities.

General and administrative costs are recorded in the NCTCOG General Fund as indirect costs in the accounting system and allocated to programs based upon a negotiated indirect cost rate. Indirect costs are defined by Title 2 U.S. Code of Federal Regulations Part 200 (2CFR200) as costs “(a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved.” NCTCOG’s indirect cost rate is based upon prior cost experience, documented by a cost allocation plan, and is approved by its cognizant agency. It is NCTCOG’s policy to negotiate with the cognizant agency a provisional rate which is used for billing purposes during NCTCOG’s fiscal year. Upon the completion of an independent audit at the end of each fiscal year, the indirect cost rate is finalized by the cognizant agency.

Capital Assets

Capital assets, which include equipment, furniture and leasehold improvements, are reported in the General Fund column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. See Note F for details on capital assets.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NCTCOG maintains workers' compensation insurance for staff, The District maintains insurance for other risks of loss coverage through commercial insurance carriers. NCTCOG’s and the District’s management believes such coverage is sufficient to preclude any significant uninsured losses. There were no significant reductions in insurance coverage from coverage in the prior year. There were no insurance settlements which exceeded insurance coverage in any of the past three years.

The District and NCTCOG participates in the Texas Municipal League Intergovernmental Risk Pool (TML-IRP) to provide workers' compensation coverage and general liability and property insurance. The District, along with other participating entities, contributes annual amounts determined by TML-IRP management.

As claims arise they are submitted to and paid by TML-IRP. There were no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2019.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash of all funds is pooled into a common bank account in order to maximize investment opportunities. The external investment pools satisfy the definition of cash equivalents; however, it is the NCTCOG's policy to treat these as investments rather than cash equivalents. NCTCOG elects to exclude investments with an original maturity of one year or less from the date of purchase from fair value reporting. These investments are reported at amortized cost.

Nature and Purpose of Restrictions and Assignment of Fund Equity

In the government-wide financial statements, net position is reported in three categories: net position invested in capital assets; restricted net position; and unrestricted net position. Net position invested in capital assets represent capital assets less accumulated depreciation. Restricted net position represents net position restricted by parties outside of the District. All other net positions are considered unrestricted.

In accordance with Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows.

Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either through laws and regulations, constitutionally or through enabling legislation.

Committed fund balance – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision-making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Managers. It also includes amounts that can be used only for the specific purposes determined by the Board of Managers. Commitments may be changed or lifted only by the Board of Managers.

Assigned fund balance – includes fund balance amounts that are self-imposed by the District to be used for a particular purpose and comprises amounts intended to be used by the District for specific purposes and is authorized by the Board of Managers or by the Executive Director. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed.

Unrestricted fund balance - total of committed fund balance, assigned fund balance, and unassigned fund balance. In an effort to ensure the continuance of sound financial management of public resources, the District's unrestricted fund balance will be maintained in the General Fund. This will provide the District with sufficient funds to address emergencies, sudden loss of revenue or operating needs, and unexpected downturns without borrowing.

This policy establishes the amounts the District will strive to maintain in its General Fund balance, the conditions under which fund balance may be spent, and the method by which fund balances will be restored. These amounts are expressed as goals, recognizing that fund balance levels can fluctuate from year to year in the normal course of operations for any government.

Minimum Unassigned/Unrestricted Fund Balance - It is the intent of the District to limit use of unassigned/unrestricted fund balances to address unanticipated, non-recurring needs or known and planned

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE A - GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Nature and Purpose of Restrictions and Assignment of Fund Equity (continued)

future obligations. Fund balances shall not normally be applied to recurring annual operating expenditures. Unassigned fund balances may, however, be used to allow time for the District to restructure its operations in a deliberate manner, but such use will only take place in the context of long-term financial planning.

The District's unassigned/unrestricted fund balance in the General Fund should represent no less than three months or 25% of operating expenditures. The District considers a fund balance of less than three months of operating expenditures to be cause for concern, barring unusual or deliberate circumstances.

If unassigned fund balance falls below the targeted minimum level or has a deficiency, the District will evaluate the shortage and a plan of action will be created to re-establish the target levels.

Regarding expenditures for which more than one category of fund balance could be utilized, it is the policy of the District that the order of use is: Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance. A schedule of NCT9-1-1 fund balances is provided in Note I.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE B - CASH AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Act contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things it requires the NCTCOG, as fiscal agent for the District, to adopt, implement and publicize an investment policy. That policy must address the following areas:

(1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes and the NCTCOG’s investment policy authorized the NCTCOG to invest in the following investments as summarized in the table below:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
US Treasury Securities	< 2 years	100%	none
US Agencies and Instrumentalities	< 2 years	85%	none
Certificates of Deposit	< 2 years	100%	none
Repurchase Agreements	< 120 days	20%	none
Money Market Mutual Funds	< 2 years	50%	none
Local Government Investment Pools	< 2 years	100%	none

The Act also requires the NCTCOG to have independent auditors perform test procedures related to investment practices as provided by the Act. The NCTCOG is in substantial compliance with the requirements of the Act and with local policies.

The District’s cash and investments as of September 30, 2019 are classified in the accompanying financial statements as follows:

Deposits with Financial Institutions	\$356,162
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Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the NCTCOG manages its exposure to risk is to invest in local government investment pools because all invested funds are intended to cover expenditures that are expected to occur within the next twelve months.

As of September 30, 2019, the NCTCOG was not investing any funds on behalf of the District.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE B - CASH AND INVESTMENTS (continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and NCTCOG's investment policy do not contain legal policy requirements that would limit the exposure to custodial credit risk for deposits or investment other than the following provision for deposits:

- The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must always equal at least the bank balance less the FDIC insurance.

At September 30, 2019, the District's deposits were entirely covered by collateral and FDIC insurance.

Interest Rate Risk. In accordance with its investment policy, NCTCOG manages its exposure to declines in fair values by limiting the maximum allowable stated maturity of any individual investment to one year, unless otherwise provided in a specific investment strategy that complies with current law.

Credit Risk. It is NCTCOG's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. NCTCOG's investment pool was rated AAAM by Standard and Poor's Investors Service.

Concentration of Credit Risk. NCTCOG's policy is to diversify its portfolio to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer or a specific class of investments.

NCTCOG, as fiscal agent for the District, is a voluntary participant in various investment pools organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Public Funds Investment Act allows eligible entities of the State of Texas to jointly invest their funds in permitted investments. The District has authorized NCTCOG to invest District funds in the following funds:

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE B - CASH AND INVESTMENTS (continued)

Investment in Local Government Pools

TexPool: The Texas Comptroller of Public Accounts (the Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. Administrative and investment services to TexPool are provided by Federated Investors, Inc., under an agreement with the Comptroller, acting on behalf of the Texas Treasury Safekeeping Trust Company. The Comptroller maintains oversight of the services provided to TexPool by Federated Investors, Inc. In addition, the TexPool Advisory Board advises on the Investment Policies for TexPool and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

TEXSTAR: J.P. Morgan Investment Management Inc. and First Southwest Company serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. JPMIM provides investment management services, and First Southwest Company provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. TexSTAR 's advisory board is composed of Participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Members are appointed and serve at the will of the Board.

NOTE C – DEFERRED COMPENSATION PLAN

NCTCOG offers its employees (District staff are employees of NCTCOG) a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The International City Management Association Retirement Corporation (ICMARC) administers the plan. The plan, available to all NCTCOG employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries. NCTCOG has no fiduciary responsibility for the plan and the amounts are not accessible by the NCTCOG or its creditors. Therefore, the plan assets are not reported in the financial statements.

The NCTCOG also contributes to a Section 457 deferred compensation plan for part-time employees. This plan is also administered by ICMARC. Part-time employees working less than 30 hours per week participate in the 457-retirement plan offered through ICMA. The employee contributes 3.75% of tax deferred gross pay and NCTCOG contributes 3.75%. All contributions are vested 100% immediately.

NOTE D – RECEIVABLES

The District is primarily funded by emergency communications fees collected from telephone providers per the Texas Health and Safety Code. The fees are due from the telephone providers 30 days after the month end in which the fees are collected.

Before the creation of the District, telephone providers submitted all fees the Texas Comptroller. The Comptroller ceased accepting fees for the District at the end of the February 2019 collections. The District has been working with the telephone providers in an effort to collect the fees that were originally sent to the Texas Comptroller for the months of December 2018 through February 2019. Most of these submissions

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE D – RECEIVABLES (continued)

have been redirected to the District. As of September 30, 2019, there are still approximately \$190,875 of fees from these months remaining to be collect by the District.

9-1-1 Service Fees Collected October - November 2019

Wireless Fees	\$	1,034,787
Landline Fees		<u>300,192</u>
Total Service Fees Due September 30, 2019		1,334,979

Landline Receivables outstanding / Deferred Inflows 190,875

Total Receivables as of September 30, 2019 \$ 1,525,854

NOTE E – PRIMARY GOVERNMENT TRANSACTIONS

Texas Health and Safety Code Sec. 772.609 established that the NCTCOG shall be the fiscal and administrative agent on behalf of the District. NCTCOG, acting as fiscal and administrative agent, provides the following services: accounting and reporting, procurement, accounts payable\receivable, human resources, payroll functions, coordination of annual independent audit, facilities coordination, information technology support, provision of a depository, and investment functions.

As of September 30, 2019, there were payables due from the District to the NCTCOG (as fiscal agent for the District) totaling \$816,984.

The outstanding balances between the District and the NCTCOG result primarily from the time lag between dates that goods and services are provided, or reimbursable expenditures occur and/or payments are made. As Fiscal Agent for the District, the NCTCOG receives and makes payments on behalf of the District.

Allocation of Employee Benefits and Indirect Costs

NCTCOG Employee Benefits and Indirect Costs are allocated based upon actual expenditures to all grants and programs in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2CFR200). NCTCOG employee benefits are allocated to projects as a percentage of NCTCOG direct labor costs. Indirect costs necessary to sustain overall operations are allocated as a percentage of total direct labor costs and employee benefits charged to projects. Contributions to Indirect Costs represent revenues that offset certain costs included in the Indirect Cost Pool. As employees of NCTCOG and as NCTCOG functioning as fiscal agent, the District participates in the same allocations as other NCTCOG activities.

General and administrative costs are recorded in the NCTCOG General Fund as indirect costs in the accounting system and allocated to programs based upon a negotiated indirect cost rate. Indirect costs are

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE E – PRIMARY GOVERNMENT TRANSACTIONS (continued)

Allocation of Employee Benefits and Indirect Costs (continued)

defined by Title 2 U.S. Code of Federal Regulations Part 200 (2CFR200) as costs “(a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved.” NCTCOG’s indirect cost rate is based upon prior cost experience, documented by a cost allocation plan, and is approved by its cognizant agency. It is NCTCOG’s policy to negotiate with the cognizant agency a provisional rate which is used for billing purposes during NCTCOG’s fiscal year. Upon the completion of an independent audit at the end of each fiscal year, the indirect cost rate is finalized with the cognizant agency.

The NCTCOG provides the following benefits to employees:

- Medical Insurance
- Medicare Insurance
- Workers Compensation
- Flexible Benefit Plan
- Life & Disability Insurance
- Unemployment Insurance
- Retirement
- Vacation
- Sick Leave
- Holiday Leave
- Other Leave

The District allocated costs for NCTCOG indirect costs totaled \$410,276 for District staff and \$36,710 for NCTCOG staff charged to the District resulting in an overall indirect cost of \$446,986 for Fiscal Year 2019. The District allocated costs for NCTCOG benefits were \$714,721 for District staff and \$63,981 for NCTCOG staff charged to the District resulting in an overall benefit cost of \$778,702 for Fiscal Year 2019.

NCTCOG Schedule of Indirect Costs, Indirect Cost Limitations Test, and Schedule of Employee Benefits can be found on the NCTCOG website at <https://www.nctcog.org>.

Information Technology Support

The NCTCOG provides information technology support to the District. As employees of the NCTCOG, District staff are provided with computers and other technologies available to all NCTCOG staff. The NCTCOG provides technology infrastructure to the District. NCTCOG technology support costs are allocated to departments primarily on type of equipment supported and services provided.

Fiscal Year 2019 network service costs totaled \$150,516 for the District. The District reimbursed NCTCOG an additional \$14,046 of network service cost for NCTCOG staff providing fiscal agent support.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE F – CAPITAL ASSETS

A summary of changes in the General Funds’ capital assets for the ten months ended September 30, 2019, follows:

	Special Item Transfer at December 03 2018	Increases	Decreases	Balance at September 30 2019
General Fund Capital Assets				
Capital Assets being Depreciated				
Equipment	\$ 14,766,883	\$ 873,569		\$ 15,640,452
Leasehold Improvements	854,251			854,251
Total capital assets being depreciated	15,621,134	873,569	-	16,494,703
Accumulated Depreciation				
Equipment	7,082,748	3,264,321		10,347,069
Leasehold Improvements	392,957	56,100		449,057
Total accumulated depreciation	7,475,705	3,320,421	-	10,796,126
General Fund activities capital assets, net	8,145,429	(2,446,852)	-	5,698,577

Assets capitalized have an original cost of \$5,000 or more per unit and over three (3) years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Equipment	3 years
Furniture	5 years
Leasehold Improvements	Length of remaining lease

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Equipment	\$ 3,264,321
Leasehold Improvements	56,100
Total depreciation expense	<u>\$ 3,320,421</u>

NOTE G – RETIREMENT PLAN

District staff are employees of the NCTCOG and participates in the NCTCOG’s retirement plan. International City Management Association Retirement Corporation (ICMARC) administers the NCTCOG’s 401(a) retirement plan. It is a defined contribution retirement plan, which provides retirement benefits for all full-time permanent employees. The NCTCOG contributed an amount of \$194,096 during fiscal year 2019 equal to twelve percent (12%) of the permanent full-time employees' gross salaries for District staff. District full-time employees also contributed an amount of \$97,048 during 2019 equal to six percent (6%) of gross salaries. Total District payroll for the year totaled \$1,908,611 including \$1,617,467 payroll covered by the plan. Employees become forty percent (40%) vested in the NCTCOG's contributions

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE G – RETIREMENT PLAN (continued)

after three (3) full years of employment. An additional fifteen percent (15%) vesting occurs for each additional full year of employment over the next four (4) years. An employee becomes fully vested after seven (7) years of employment. The NCTCOG’s retirement plan was formed under the authority of the NCTCOG’s Executive Board and the Executive Board has the authority to amend/or terminate the retirement plan and/or contribution requirements at any time.

NOTE H – COMMITMENTS

The NCTCOG entered into an agreement with ViaWest during Fiscal Year 2015 for the lease of two (2) commercial data centers. The contract is for two (2) years plus six (6) optional one-year terms. The maximum amount authorized for the contract was an amount not to exceed \$2,935,977. The District’s rental expenditures under this lease agreement totaled \$122,235 for Fiscal Year 2019. An additional \$242,795 was paid on this agreement in Fiscal Year 2019 utilizing State funding.

Future minimum rental payments required under this lease are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2020	\$ 366,900
2021	366,900
2022	366,900
2023	366,900
	<u>\$ 1,467,600</u>

The NCTCOG leases office space for the NCTCOG in its entirety. The District staff utilizes a portion of that space and reimburses NCTCOG for the facilities costs based on square footage used by the District. Fiscal Year 2019 facilities costs totaled \$300,074 for the District. The District reimbursed NCTCOG an additional \$6,031 of facilities cost for NCTCOG staff providing fiscal agent support.

NOTE I – UNEARNED REVENUE

The General Fund uses a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Their revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transactions can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. (See Note A)

Contributions to special event programs from local participants and contributors are recognized as revenue when the event occurs, or expenditures are recognized for the event. The District had unearned revenue from special event contributions totaling \$129,048 as of September 30, 2019.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

For the 10 Months Ending September 30, 2019

NOTE J – FUND BALANCE

Since becoming an independent District, an accumulation of a fund balance (greater revenue than expenditures) is a foreseen occurrence. District policy allows for the establishment of multiple funds for tracking and management of long-term planning. The District will use the General Fund to account for routine business of the District including reimbursements to NCTCOG. The fund balance goal for the General Fund is to accumulate a ninety (90) day or 25% “reserve”. The priority use of Fund Balance after the reserve is met is as follows:

1. Contributions designated for capital funding and replacement
2. Contributions designated for special projects
3. Contributions designated for local government reimbursements.

Primarily due to Fiscal Year 2019 being a transition year, the fund balance goal of twenty-five percent (25%) reserve in the General Fund has not been obtained. Management recognizes this may take one (1) or two (2) years for the reserve to be achieved.

In accordance with GASB 54 the District classifies governmental fund balances as follows:

	General Fund
FUND BALANCES:	
Non-Spendable:	
Prepaid	\$ 102,111
Unrestricted:	
Unassigned	<u>710,574</u>
Total Fund Balances	<u><u>\$ 812,685</u></u>

NOTE K – SPECIAL ITEM

Texas Health and Safety Code 772.622 allows the NCTCOG to transfer to the District assets related to the provision of 9-1-1 service. The NCTCOG executive board authorized this transfer in January 2019.

The NCTCOG transferred \$15,621,134 of equipment and leasehold improvements and \$7,475,705 of accumulated depreciation (related to those assets) to the District resulting in a net transfer totaling \$8,145,429. (See Note F)

REQUIRED SUPPLEMENTAL SCHEDULES



NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
 BUDGETARY COMPARISON
 GENERAL FUND
 YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amount		Budget Basis Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Wireless	\$ 6,904,945	\$ 6,904,945	\$ 6,771,651	\$ (133,294)
Landline	2,301,648	2,301,648	1,318,752	(982,896)
Total Revenues	9,206,593	9,206,593	8,090,403	(1,116,190)
EXPENDITURES				
Labor & Labor Related	3,933,460	3,933,460	3,248,757	(684,703)
Fiscal Agent Support	170,830	170,830	267,157	96,327
Cost of Operations	3,536,913	3,536,913	3,427,793	(109,120)
Local Government Reimbursements	1,565,390	1,565,390	334,011	(1,231,379)
Total Expenditures	9,206,593	9,206,593	7,277,718	(1,928,875)
EXCES (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	812,685	812,685
Fund Balance - Beginning				
Fund Balance - Ending	\$ -	\$ -	\$ 812,685	\$ 812,685

Note A: Financial Statement Presentation – Budget Basis

It is the District's policy to prepare the annual budget on a near-term governmental fund basis. This basis includes current year purchase costs of capitalized items. The budget basis does not include depreciation of capital expenses or long-term liabilities. Accordingly, the Budgetary Comparison Schedule - General Fund is prepared on the basis utilized in preparing the budget.

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2019

Note A: Financial Statement Presentation – Budget Basis (continued)

General Fund

Total Net Expenditures	\$ 7,285,863
Less Cost of Designated Funds	(8,145)
	<hr/>
Total Budgetary Expenses	<u>\$ 7,277,718</u>

NORTH CENTRAL TEXAS EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2019

Note B: Budgetary Controls

The District follows these procedures in establishing the General Fund budgetary data reflected in the basic financial statements:

- a. Prior to October 1, the Executive Director submits to the Board of Managers a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to October 1, the Board of Managers formally approves the budget document following a public hearing.
- c. The approved annual budget is used as a control device for the General Fund.
- d. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgetary comparisons presented for the General Fund in this report are on this GAAP budgetary basis.
- e. Appropriations for the General Fund lapse at the end of the fiscal year.
- f. Expenditures cannot legally exceed appropriations at the fund level. Expenditures are monitored by the NCTCOG's Administration Department. When expenditures are required for functions that have not been budgeted, authorization to incur the expenditures is requested from the Districts's Board of Managers by resolution during its regular quarterly meetings.
- g. The Executive Director is authorized to transfer budgeted amounts between programs; however, the District's Board of Managers would approve any revisions, which would increase total expenditures.