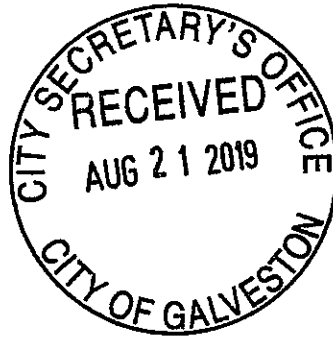




Ham, Langston
& Brezina, L.L.P.
CPAs and Advisors



11550 Fuqua St., Ste. 475
Houston, Texas 77034
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July 26, 2019

To the Board of Commissioners
Galveston County Navigation District No. 1
2121 Market, Suite 211
Galveston, Texas 77550

We have audited the financial statements of the governmental activities of the Galveston County Navigation District No. 1 (the "District") for the year ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 4, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practice

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District's financial statements was:

Management's estimate of future cost of bridge rehabilitation. Management's estimate is based on current contracts and related amendments; however, unforeseen developments could change this estimate. We have evaluated key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Entries to reconcile taxes to tax collector monthly report at December 31, 2018.
- Entries to reverse and record payroll, pension and TIRZ accruals.
- Entries to record current year depreciation.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 9, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison information, and required supplementary information for the Herbert E. Schmidt Causeway, which are required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of Galveston County Navigation District No. 1 and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Ham, Langston and Brezina, LLP

Ham, Langston & Brezina, LLP

Galveston, Texas

GALVESTON COUNTY NAVIGATION DISTRICT NO. 1

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
As of and for the Year Ended December 31, 2018**

**GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Galveston County Navigation District No. 1:

Report on the Financial Statements

We have audited the accompanying financial statements of the Galveston County Navigation District No. 1 (the "District") which are comprised of the statement of net position and governmental funds balance sheet and reconciliation of the governmental fund balance sheet to the statement of net position as of December 31, 2018, and the statement of activities and governmental funds revenues, expenditures, and changes in fund balance and reconciliation of statement of revenues, expenditures and changes in fund balance of governmental funds to the statements of activities for the year then ended, and the related notes to the 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 an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galveston County Navigation District No. 1 as of December 31, 2018, 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.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

Other-Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2019, on our consideration of the Galveston County Navigation District No. 1'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* in considering Galveston County Navigation District No. 1's internal control over financial reporting and compliance.

Sam, Langston and Brenna LLP

Galveston, Texas
July 9, 2019

GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

As management of the Galveston County Navigation District No.1 (the "District"), we offer readers of the District's financial statements this overview and analysis of the District's financial activities for the fiscal year ended December 31, 2018.

Financial Highlights

For the year ending December 31, 2018, the District had total general revenues of \$1,517,124 and total expenditures of \$1,474,599, resulting in a change in fund balance of \$42,525 and a total fund balance of \$3,818,415 as of December 31, 2018. For the year ending December 31, 2018, included in the government-wide financial statements were total general revenues of \$1,778,945 and total expenditures of \$1,407,444, resulting in a change in net position of \$371,501 and a total ending net position of \$11,216,484 as of December 31, 2018. For the year ending December 31, 2017, included in the government-wide financial statements were total general revenues of \$1,598,364 and total expenses of \$1,041,169, resulting in a change in net position of \$557,195 and a total ending net position of \$10,844,983 as of December 31, 2017.

Overview of the Financial Statements

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

Government-Wide Financial Statements - The government-wide financial statements 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 increases or decreases in net position and may serve as a useful indicator of whether the financial position of the District's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 9-14 of this report.

Comparison in Government-Wide Financial Statements

The total assets for the District were \$11,354,653 at December 31, 2018, compared to \$10,987,001 at December 31, 2017. This includes capital assets net of accumulated depreciation. For the year ending December 31, 2018, total liabilities were \$138,169 resulting in a total net position \$11,216,484. For the year ending December 31, 2017, total liabilities at December 31, 2017 were \$142,018 resulting in a total net position of \$10,844,983.

Capital Assets

At December 31, 2018, the District had \$6,152,649, net of accumulated depreciation, invested in capital assets. This includes the Herbert E. Schmidt Causeway (the "Causeway"), a truck and other equipment. The District has elected to use the modified approach to reporting infrastructure assets which eliminates the requirement to depreciate the Causeway. Changes in capital assets from the prior year include annual depreciation in the amount of \$13,110 and the purchase of bridge monitoring equipment in the amount of \$80,265.

Deferred Inflows of Resources

At December 31, 2018, the District had \$1,245,420 of deferred inflows of resources related to property tax revenue compared to \$983,599 at December 31, 2017.

**GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2018**

Analysis of Significant Budget Variances

For the year ending December 31, 2018, significant differences between Actual to Budget resulted from revenues being under budget by \$18,876 primarily due to lower tax collections, and expenditures being under budget by \$417,926 primarily due to over budgeting on Capital Projects-Electrical.

Economic Factors and Next Year's Budget and Rates

The projected revenue for the year ending December 31, 2019 has increased to \$1,604,000 from the budgeted revenue for the year ending December 31, 2018 of \$1,536,000.

The District's largest variable to meeting budgeted amounts is covering the cost of accidents caused by vessels running into the bridge and fender system. The repairs are bid upon, contracted, and paid for by the District before the cost of damages is collected from the companies operating the vessels.

Request for Information

The fiscal report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's accountability for money it receives. If you have questions about this report or need additional financial information, please contact the General Manager at (409) 762-3988 2121 Market Street, Suite 211, Galveston, Texas 77550.

GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2018

ASSETS	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Cash and investments	\$ 3,874,806	\$ -	\$ 3,874,806
Taxes in transit from collector	11,321	-	11,321
Taxes receivable, including current and delinquent	1,245,420	-	1,245,420
Prepaid expenses and other assets	70,457	-	70,457
Non-depreciated capital assets	-	6,051,383	6,051,383
Capital assets, net of accumulated depreciation	-	101,266	101,266
Total assets	<u>\$ 5,202,004</u>	<u>\$ 6,152,649</u>	<u>\$ 11,354,653</u>
 LIABILITIES AND FUND BALANCES / NET POSITION			
Liabilities:			
Accrued expenses	\$ 138,169	\$ -	\$ 138,169
Deferred revenue-taxes	<u>1,245,420</u>	<u>(1,245,420)</u>	<u>-</u>
Total liabilities	<u>1,383,589</u>	<u>(1,245,420)</u>	<u>138,169</u>
Fund balances:			
Nonspendable - prepayments	70,457	(70,457)	-
Unassigned	<u>3,747,958</u>	<u>(3,747,958)</u>	<u>-</u>
Total fund balances	<u>3,818,415</u>	<u>(3,818,415)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 5,202,004</u>		
Net position:			
Net investment in capital assets		6,152,649	6,152,649
Unrestricted		<u>5,063,835</u>	<u>5,063,835</u>
Total net position		<u>\$ 11,216,484</u>	<u>11,216,484</u>
Total liabilities and net position			<u>\$ 11,354,653</u>

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

**GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total fund balances, governmental fund	\$ 3,818,415
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund	6,152,649
Taxes due but not collected in governmental activities are not available to pay liabilities of the current period and, therefore, are reported as deferred revenue in the fund	<u>1,245,420</u>
Net position of governmental activities	<u>\$ 11,216,484</u>

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

GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2018

	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures / Expenses:			
General operating:			
Bridge repairs and maintenance	\$ 380,666	\$ -	\$ 380,666
Insurance	45,416	-	45,416
Commissioners' fees	30,000	-	30,000
City costs – Tax Increment Reinvestment Zone	72,768	-	72,768
Contracted services and professional fees	95,774	-	95,774
Salaries	470,286	-	470,286
Employee pension and benefits	187,897	-	187,897
Payroll tax	37,929	-	37,929
Tax collection expense	15,961	-	15,961
Capital outlay	80,265	(80,265)	-
Depreciation	-	13,110	13,110
Other general and administrative	57,637	-	57,637
Total expenditures	<u>1,474,599</u>	<u>(67,155)</u>	<u>1,407,444</u>
General revenues:			
Property taxes, including penalties and interest	1,492,008	261,821	1,753,829
Interest earned	25,116	-	25,116
Total general revenues	<u>1,517,124</u>	<u>261,821</u>	<u>1,778,945</u>
Changes in fund balance	42,525	(42,525)	-
Changes in net position	-	371,501	371,501
Fund balance / net position:			
Beginning of year	<u>3,775,890</u>	<u>7,069,093</u>	<u>10,844,983</u>
End of year	<u>\$ 3,818,415</u>	<u>\$ 7,398,069</u>	<u>\$ 11,216,484</u>

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

**GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net changes in fund balance	\$	42,525
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in the governmental funds. However, in the statement of activities, the costs of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Purchase of fixed asset		80,265
Depreciation		(13,110)
Uncollected property tax is deferred in the governmental funds. However, in the statement of activities, revenue is recorded when earned.		
Property tax revenue		<u>261,821</u>
Changes in net position of governmental activities	\$	<u><u>371,501</u></u>

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

GALVESTON COUNTY NAVIGATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Operations

The Galveston County Navigation District No. 1 (the "District") was statutorily created by the State of Texas on April 4, 1955 and has no contractual relationship with any other entity. The District is defined as a primary government with no component units. Authority rests with an elected Board of three commissioners whose responsibility is the operation and maintenance of the H.E. Schmidt Causeway (the "Causeway").

2. Summary of Significant Accounting Policies

Principles Determining the Scope of Reporting Entity

The reporting entity refers to the scope of activities, organizations, and functions included in the financial statements.

The District is an independent unit with no dependent agencies, and it is managed by a governing board of elected officials. The Board of Commissioners, which consists of three members, is the basic level of government which has oversight responsibility and control over all activities relating to the District. The Board is not included in any other governmental "reporting entity" as defined in Governmental Accounting Standards Board ("GASB") pronouncements, since board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Government-Wide and Fund Financial Statements

The financial statements combine both government-wide (based on the District as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the District as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize primary activities as governmental. In the government-wide Statement of Net Position and Governmental Funds Balance Sheet, the governmental activities column is (a) presented on a consolidated basis by column, and (b) reflected on a full accrual, economic resource basis which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between governments) to enhance the usefulness of the information.

The government-wide statement of activities reflects the gross expenditures that are used to carry on the function of the District. The Statement of Activities will reduce gross expenses (including depreciation) by related program revenues, if applicable. The District did not receive program revenues for the year ended December 31, 2018.

GASB Statement No. 34, *Basic Financial Statements – And Management's Discussion and Analysis – For Statement and Local Governments*, provides that for special-purpose entities engaged in a single governmental program, the fund financial statements and the government-wide financial statements may be combined. As the District is a special-purpose entity consisting of only one governmental fund, it has elected to combine the fund financial statements and the government-wide financial statements as provided for by GASB Statement No. 34.

In the fund financial statements, financial transactions and accounts of the District are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the government-wide financial statements.

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.

GALVESTON COUNTY NAVIGATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation, continued

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

Fund Balances

The District has implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*.

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

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

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

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

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

Net Position

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities including a statement of net position and a statement of activities. It requires the classification of net position into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

GALVESTON COUNTY NAVIGATION DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Net Position, continued

- Restricted – Restricted net position are net position upon which constraints have been externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – Unrestricted net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Budgetary Data

Prior to October 1, the Chairman submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. After approval by the Board, the budget is legally adopted. The same basis of accounting is used to reflect actual revenues and expenditures recognized on a generally accepted accounting principles basis, as that used for budget purposes.

Revenue Recognition – Property Taxes

The appraisal of property within the District is the responsibility of the Galveston Central Appraisal District ("GCAD"), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the County and funded from assessments against those taxing jurisdictions. Property taxes for a fiscal year are based on GCAD appraised values and are levied on approximately October 1 of the same year and are due by the following January 31. Unpaid taxes become delinquent on February 1, at which time they attach as an enforceable lien on real property. Property taxes are recorded as deferred revenue when levied and are recognized as revenue when they are collected.

Encumbrances

Encumbrance accounting, under which purchase orders, contract, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation, is not employed by the District because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

3. Cash and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

As authorized in enabling legislation, deposits of the District are in demand deposits and interest-bearing money market accounts bearing interest during the year from .15% to 1.00%. Deposits are secured at balance sheet date by FDIC coverage and by pledged U.S. Government securities held by an agent of the bank in the name of the depository bank. The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- Category 1: Deposits and investments, which are insured or collateralized with securities, held by the District or by its agent in the District's name.
- Category 2: Deposits, which are collateralized with securities, held by the pledging financial institution's trust department or agent in the District's name.
- Category 3: Deposits, which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2. All cash was fully secured at December 31, 2018.

**GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

4. Property Taxes Receivable

The District assesses property taxes in accordance with enabling state legislation. Property taxes are levied on October 1 based on an assessed value, which approximates market value. Taxes must be paid on or before January 31 in order to avoid interest and penalty charges. Unpaid taxes become delinquent on February 1.

Tax levy for the year ended December 31, 2018, was \$1,725,019, based on gross appraised value of \$6,319,277,047 and a rate of \$.042922 per \$100 of taxable appraisal value of \$3,843,538,633.

	<u>2017</u>	<u>2018</u>	<u>Total</u>
Taxes receivable, beginning of year			
Tax levy, 2018	\$ 983,599	\$ -	\$ 983,599
Collections	-	1,725,019	1,725,019
	<u>(879,454)</u>	<u>(583,744)</u>	<u>(1,463,198)</u>
Taxes receivable, end of year	<u>\$ 104,145</u>	<u>\$ 1,141,275</u>	<u>\$ 1,245,420</u>

5. Property and Equipment

At December 31, 2018, property and equipment is comprised of the following:

	<u>Balance 12/31/2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/2018</u>
Truck	\$ 16,013	\$ -	\$ -	\$ 16,013
Equipment	90,293	80,265	-	170,558
Herbert E. Schmidt Causeway	<u>6,051,383</u>	<u>-</u>	<u>-</u>	<u>6,051,383</u>
	6,157,689	80,265	-	6,237,954
Less accumulated depreciation	<u>(72,195)</u>	<u>(13,110)</u>	<u>-</u>	<u>(85,305)</u>
	<u>\$ 6,085,494</u>	<u>\$ 67,155</u>	<u>\$ -</u>	<u>\$ 6,152,649</u>

The modified approach to reporting infrastructure assets has been elected by the District which allows the District to report the Causeway at cost without recognizing depreciation, provided that the condition of the bridge is maintained at or above a specified condition level. Costs of preserving the bridge at or above condition level are charged to expense. The truck and equipment are depreciated by the straight-line method with an estimated life of 7 years. Maintenance and repairs are charged to expense as incurred. Improvements and equipment acquisitions exceeding thresholds set by the State of Texas are capitalized by charges to property and equipment and depreciated at appropriate rates.

6. Employee Benefit Plan

The District maintains health, welfare, and pension plans for its employees. The plan is a defined contribution plan, and employer contributions are based on 15% of salaries for covered employees. The health and welfare plan policyholder is Galveston County Navigation District No. 1 Employees Pension Plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that maybe allocated to such participant's account.

**GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

6. Employee Benefit Plan, continued

All employees participate in the plan after a minimum requirement of six months of service. An employee who leaves the employment of the District is entitled to the District's contributions plus earnings in accordance with the following vesting schedule:

<u>Years of Service</u>	<u>Amount Vested</u>
2	20%
3	40%
4	60%
5	80%
6	100%

Retirement is at age 65 or after five years of participation in the plan, if later. No employee contributions are accepted; employer contributions are 15% of covered payroll. Contributions accrued for the year ending December 31, 2018 were \$66,527 based on 15% of covered payroll of \$443,511.

No pension provision changes occurred during the year that affected the required contributions to be made by the District.

7. Contingency

The District discontinued its commercial insurance coverage which provides for potential damage to the Causeway. The coverage was cancelled because it did not provide for natural disasters and because damage to the Causeway normally results from vessel or vehicle accidents where reimbursement is received from those at fault. However, if an accident occurred resulting in substantial damage to the Causeway and reimbursement was not forthcoming, it may be necessary to borrow for repairs.

8. Accrued Expenses

At December 31, 2018, accrued expenses are comprised of the following:

	<u>2018</u>
Payroll expense	\$ 26,880
City Costs – Tax Increment Reinvestment Zone	39,620
Employee benefits	66,527
Accounts payable	5,142
	<u>\$ 138,169</u>

9. Bridge Rehabilitation

The District signed an Advanced Funding Agreement effective December 12, 2006, and most recently amended December 1, 2015, with the Texas Department of Transportation to rehabilitate or replace the bridge which crosses over Pelican Island Channel. The total estimated cost of the project is \$6,550,000 to be funded by both the State and Local Governments. The cost of this project to the District is expected to be \$655,000, of which, the District made a \$100,000 participation prepayment as of December 31, 2016. On January 19, 2017, the \$100,000 payment was refunded to the District based on a change in terms of the Advanced Funding agreement. After the Project has been completed, the Local Government shall accept full ownership, and operate and maintain the facilities. The Texas Department of Transportation expects to begin the project during 2019.

As Pelican Island continues to develop, the Board is conducting study options to determine the need for a replacement bridge.

**GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS**

10. Date of Management's Review

Management has evaluated subsequent events through July 9, 2019, the date the financial statements were available to be issued, and has concluded that there are no significant events to be reported.

Required Supplementary Information

GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	<u>General Fund</u>		
	<u>Budget*</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues:			
Ad valorem taxes	\$ 1,460,000	\$ 1,448,019	\$ (11,981)
Penalties and interest	17,000	30,782	13,782
Tax increment reinvestment zone collection	50,000	13,207	(36,793)
Payment in lieu of taxes	8,000	-	(8,000)
Interest earned	1,000	25,116	24,116
Total revenues	<u>1,536,000</u>	<u>1,517,124</u>	<u>(18,876)</u>
Expenditures:			
Current:			
Accounting and auditing	20,700	23,795	3,095
Appraisal services	14,000	12,928	(1,072)
Assessing and collecting taxes	14,000	15,961	1,961
Commissioners' expenses	2,000	4,428	2,428
Commissioners' fee of office	30,000	30,000	-
Contract services/consultants	85,000	19,708	(65,292)
Dues	5,000	8,501	3,501
Donations	6,000	400	(5,600)
Election expense	10,000	2,441	(7,559)
Equipment purchases	2,000	80,265	78,265
Insurance	52,000	45,416	(6,584)
Legal	40,000	38,112	(1,888)
Meeting expense	500	-	(500)
Office expenses	4,000	4,806	806
Operating expenses	50,000	913	(49,087)
Personnel - employee benefits	150,000	187,897	37,897
Personnel - salaries and wages	420,105	470,286	50,181
Rent	6,420	3,210	(3,210)
Repair, maintenance, supplies - bridge	50,000	79,466	29,466
Sanitation	5,800	5,658	(142)
Tax rate notice	500	-	(500)
Tax investment zone refund	50,000	72,768	22,768
Taxes - payroll	45,000	37,929	(7,071)
Telephone	2,000	2,196	196
Truck expense	3,500	1,186	(2,314)
Utilities	24,000	25,129	1,129
Capital Projects - Electrical	800,000	301,200	(498,800)
Total expenditures	<u>1,892,525</u>	<u>1,474,599</u>	<u>(417,926)</u>
Changes in fund balance	<u>\$ (356,525)</u>	<u>\$ 42,525</u>	<u>\$ 399,050</u>

* Original

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

**GALVESTON COUNTY NAVIGATION DISTRICT NO. 1
REQUIRED SUPPLEMENTARY INFORMATION
FOR HERBERT E. SCHMIDT CAUSEWAY
DECEMBER 31, 2018**

Conditions Ratings Legend

- N Not applicable
- 9 Excellent condition
- 8 Very good condition
- 7 Good condition - some minor problems
- 6 Satisfactory condition - minor deterioration of structural elements (limited)
- 5 Fair condition - minor deterioration of structural elements (extensive)
- 4 Poor condition - deterioration significantly affects structural capacity
- 3 Serious condition - deterioration seriously affects structural capacity
- 2 Critical condition - bridge should be closed until repaired
- 1 Failing condition - bridge closed but repairable
- 0 Failing condition - bridge closed and beyond repair

Selected Component Description and Rating

<u>Component</u>	<u>Feature Crossed</u>	
	<u>SP & ATSF RR</u>	<u>Pelican Island Channel</u>
	Rating *	Rating *
Concrete deck	9	6
Superstructure	9	5
Substructure	9	5

Comparison of Estimated-to-Actual Maintenance

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Estimated	\$ 50,000	\$ 80,025	\$ 92,375	\$ 108,066	\$ 113,600
Actual	\$ 380,666	\$ 59,208	\$ 104,585	\$ 167,887	\$ 167,544

The condition of the bridge is inspected every 5 years by the Texas Department of Transportation according to federally mandated National Bridge Inspection Standards (NBIS). It is the Galveston Navigation District No. 1's policy to maintain the bridge at a rating of 5 or above.

* The inspection rating for the section of Herbert E. Schmidt Causeway which crosses the Pelican Island Channel was last completed in February 2014. Due to extensive post Hurricane Ike construction on the Bridge under a Federal Highway Administration Grant, administered by the Texas Department of Transportation, the Texas Department of Transportation inspects the bridge construction progress regularly as part of the grant reimbursement approval process.

Other Reports



Ham, Langston
& Brezina, L.L.P.
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Galveston County Navigation District No. 1:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Galveston County Navigation District No. 1's (the "District") basic financial statements and have issued our report thereon dated July 9, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified the following deficiencies in internal control that we consider to be material weaknesses and significant deficiencies:

- 1) All significant adjustments other than those to convert to government wide financial statements should be made by the District's bookkeeper and approved by the District's management prior to submitting the financial statements for audit.

The following entries were made as a result of audit procedures which should have been made prior to submitting the financial statements for audit:

- Entries to reconcile taxes to tax collector monthly report at December 31, 2018.
- Entries to reverse and record payroll, pension and Tax Increment Reinvestment Zone accruals.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Galveston County Navigation District No. 1's Response to Findings

Management of the District is aware of the significant deficiencies and material weaknesses identified above. Further, management has communicated them to their bookkeeper, and they are working on implementing a control process in which the financial statements will be reviewed and approved before submitting for them for the audit.

Purpose of this Report

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

Sam Langston and Baezinas LLP

Galveston, Texas
July 9, 2019