

**Harris County Emergency  
Services District #1**

**FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**December 31, 2016**



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**December 31, 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Harris County Emergency Services District #1  
Houston, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of Harris County Emergency Services District #1 (the "District"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Harris County Emergency Services District #1, as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the budget to actual comparison for the major fund on page 20 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.

*Caru, Riggs & Ingram, L.L.C.*

Houston, Texas  
April 25, 2017

# Harris County Emergency Services District #1 Management's Discussion and Analysis (Unaudited)

This discussion and analysis of Harris County Emergency Services District #1's (the "District") financial statements provides an overview of the District's financial performance for the year ended December 31, 2016. It includes comparative data for the year ended December 31, 2015 with a brief explanation for significant changes between the periods. Because the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and current known facts, please read in conjunction with the District's basic financial statements and the footnotes. Responsibility for the completeness of this information rests with the management of the District.

## FINANCIAL HIGHLIGHTS

The following highlight certain events that occurred during 2016:

- The District contracts with Harris County Emergency Corps ("HCEC") a nonprofit entity to provide emergency ambulance services to the citizens of North Harris County. Under the terms of the Ambulance and Emergency Service Agreement, the District agrees to pay HCEC an agreed upon amount per trip less amounts collected by third parties. The District paid HCEC approximately \$10,330,000 in connection with this agreement for services provided in 2016.
- The District tax rate remained at \$0.10 per \$100 for the fiscal year.
- The District continues to utilize the tax consultants hired in 2014 to review and ensure the accuracy of the tax rolls. During the current review, they identified several properties missing from the tax rolls that represent new tax value of \$166,000,000.
- Under the Ambulance and Emergency Service Agreement, the District agrees to purchase at least two new ambulances annually. During 2016, the District purchased three new ambulances totaling approximately \$501,000.

## GENERAL ECONOMIC FACTORS

The District is a local governmental agency created by a vote of the public to provide emergency medical services in the specific unincorporated area of Harris County. The District is a taxing entity with the majority of its revenue coming from property taxes in the area it serves. The general economic climate continues to be of concern to the District, specifically in regards to property values due to the fact a decline in property values could lead to a decrease in tax revenues.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The 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 statements report information about the District as a whole using accounting methods similar to those used in private-sector companies. The Statement of Net Position includes all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them presented as net position. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

## Harris County Emergency Services District #1 Management's Discussion and Analysis (Unaudited)

### OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The fund financial statements report information about the District on the modified accrual basis, which only accounts for revenues that are measurable and available within the current period or soon enough thereafter to pay liabilities of the current period. Reconciliations are provided that reconcile the fund statements to the government-wide statements.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances, and activities.

#### Statement of Net Position

The Statement of Net Position includes all assets, liabilities, and deferred inflows of resources using the accrual basis of accounting. The following table reflects condensed information (rounded to the nearest thousand) on the District's net position:

| <i>December 31,</i>                             | <b>2016</b>         | <b>2015</b>  | <b>Increase<br/>(Decrease)</b> |
|---|---------------------|--------------|--------------------------------|
| <b>Assets:</b>                                  |                     |              |                                |
| Cash and cash equivalents                       | \$ 6,677,000        | \$ 4,318,000 | \$ 2,359,000                   |
| Property taxes receivable, net                  | 13,104,000          | 12,410,000   | 694,000                        |
| Patient services receivable, net                | 96,000              | 121,000      | (25,000)                       |
| Other receivable                                | 17,000              | 17,000       | -                              |
| Prepaid expenses                                | 40,000              | 80,000       | (40,000)                       |
| Capital assets, net                             | 6,668,000           | 6,494,000    | 174,000                        |
| Other assets                                    | 800,000             | 800,000      | -                              |
| <b>Total assets</b>                             | <b>27,402,000</b>   | 24,240,000   | 3,162,000                      |
| <b>Liabilities:</b>                             |                     |              |                                |
| Accounts payable                                | 770,000             | 911,000      | (141,000)                      |
| Interest payable                                | 14,000              | 16,000       | (2,000)                        |
| Deferred gain from terminated lease             | 31,000              | 72,000       | (41,000)                       |
| Notes payable - due within one year             | 381,000             | 362,000      | 19,000                         |
| Notes payable - due in more than one year       | 2,548,000           | 2,929,000    | (381,000)                      |
| <b>Total liabilities</b>                        | <b>3,744,000</b>    | 4,290,000    | (546,000)                      |
| <b>Deferred inflows of resources</b>            |                     |              |                                |
| Deferred property tax revenue                   | 14,696,000          | 14,010,000   | 686,000                        |
| <b>Net position</b>                             |                     |              |                                |
| Invested in capital assets, net of related debt | 3,740,000           | 3,203,000    | 537,000                        |
| Unrestricted                                    | 5,222,000           | 2,737,000    | 2,485,000                      |
| <b>Total net position</b>                       | <b>\$ 8,962,000</b> | \$ 5,940,000 | \$ 3,022,000                   |

# Harris County Emergency Services District #1 Management's Discussion and Analysis (Unaudited)

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District had an increase in property tax revenues, resulting in an overall increase of \$3.02 million in 2016. The District's cash is held in demand and money market funds. The District collected approximately \$25,000 of patient service receivable on activity related to the ambulance services performed prior to June 30, 2011. Collections remain slow on patient receivables. Although the District continues collection efforts on these outstanding balances, ultimate collection becomes more doubtful the older the accounts become.

During 2016, the District's major fixed assets purchased consisted of three new ambulances totaling \$380,250, a Stryker Stretcher totaling \$116,815, one truck and three Chassis' totaling \$155,274, one ventilator totaling \$206,263, one generator totaling \$166,414 and various items with a grand total of additions in the amount of \$1,280,606. Depreciation expense totaled \$1,082,575 for the year.

At December 31, 2016, the District owed HCEC \$758,099 for ambulances services. During 2016, the District paid down the note payable by \$361,972 leaving an outstanding balance of \$2,928,731 at December 31, 2016.

Deferred property tax revenue increased by \$686,000 due to increased valuations of properties in North Harris County by the Harris County Tax Assessor's office. The District's tax rate of \$0.10 per \$100 remains consistent between 2016 and 2015 tax levy years. Tax collection is handled by the Harris County Tax Assessor's Office.

In August 2014, the District terminated a capital lease with HCEC in response to a state law change requiring government agencies to keep on their books assets purchased with public funds. The lease termination resulted in a deferred gain totaling \$150,000 which is amortized over the life of the new operating lease starting February 2015 until 2018. The amortization for 2016 totaled \$41,000.

### Statement of Activities

The Statement of Activities presents the operating results of the District. The following table reflects condensed information (rounded to the nearest thousand) on the District's operations:

| <i>For the years ended December 31,</i> | <b>2016</b>          | <b>2015</b>   | <b>Increase<br/>(Decrease)</b> |
|---|----------------------|---------------|--------------------------------|
| <b>Revenues:</b>                        |                      |               |                                |
| Property taxes, net                     | <b>\$ 14,297,000</b> | \$ 12,407,000 | \$ 1,890,000                   |
| Lease revenue                           | <b>631,000</b>       | 631,000       | -                              |
| Other general revenues                  | <b>48,000</b>        | 125,000       | (77,000)                       |
| Contributions                           | <b>9,000</b>         | 5,000         | 4,000                          |
| <b>Total revenues</b>                   | <b>14,985,000</b>    | 13,168,000    | 1,817,000                      |

## Harris County Emergency Services District #1 Management's Discussion and Analysis (Unaudited)

### OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

|  |                     |               |              |
|--|---------------------|---------------|--------------|
| Expenditures:                          |                     |               |              |
| Program                                | \$ 11,807,000       | \$ 10,742,000 | \$ 1,065,000 |
| Interest                               | 156,000             | 174,000       | (18,000)     |
| <hr/>                                  |                     |               |              |
| Total expenditures                     | 11,963,000          | 10,916,000    | 1,047,000    |
| <hr/>                                  |                     |               |              |
| <b>Change in net position</b>          | <b>3,022,000</b>    | 2,252,000     | 770,000      |
| <hr/>                                  |                     |               |              |
| <b>Net position, beginning of year</b> | <b>5,940,000</b>    | 3,688,000     | 2,252,000    |
| <hr/>                                  |                     |               |              |
| <b>Net position, end of year</b>       | <b>\$ 8,962,000</b> | \$ 5,940,000  | \$ 3,022,000 |

In 2016, property tax revenue increased \$1.9 million compared to 2015, due to the additional annexed areas and increase in property valuations. During 2016 the District continued to lease buildings and ambulances to HCEC under the amended master leasing agreement expiring December 31, 2018.

There was a slight increase in overall expenditure over 2016. The District major expenditures continue to be payments to HCEC for emergency medical services and depreciation expense.

#### Governmental Funds

At the end of the current fiscal year, the District's governmental fund (general fund) reported an ending fund position of approximately \$4.5 million, which is approximately \$2.5 million more than the prior fiscal year. All of the assets in the general fund are available resources to be used at the District's discretion.

#### Capital Assets

| <i>December 31,</i>               | <b>2016</b>  | <b>2015</b>  |
|-----------------------------------|--------------|--------------|
| <hr/>                             |              |              |
| <b>Capital assets</b>             |              |              |
| Land                              | \$ 694,000   | \$ 694,000   |
| Buildings and improvements        | 7,384,000    | 7,486,000    |
| Ambulances and other vehicles     | 3,055,000    | 2,429,000    |
| Furniture, fixtures and equipment | 2,640,000    | 2,015,000    |
| <hr/>                             |              |              |
| Total gross capital assets        | 13,773,000   | 12,624,000   |
| <hr/>                             |              |              |
| Less accumulated depreciation     | (7,105,000)  | (6,130,000)  |
| <hr/>                             |              |              |
| Total net capital assets          | \$ 6,668,000 | \$ 6,494,000 |



# Harris County Emergency Services District #1 Management's Discussion and Analysis (Unaudited)

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Capital assets increased slightly during 2016, as a result of purchasing new vehicles and accessories for approximately \$656,000 and new equipment of \$625,000 offset by depreciation expense of \$1,083,000.

### Long-term Debt

| <i>December 31,</i>           | <b>2016</b>         | <b>2015</b>         |
|-------------------------------|---------------------|---------------------|
| <b>Debt</b>                   |                     |                     |
| Wells Fargo Bank, N.A.        | \$ 264,000          | \$ 290,000          |
| De Lage Landen Public Finance | 2,665,000           | 3,001,000           |
|                               | <b>\$ 2,929,000</b> | <b>\$ 3,291,000</b> |

Long-term note payables for 2016 decreased when compared to 2015 as a result of the District continuing to make scheduled payments. No additional debt was issued by the District during 2016.

## CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

During 2016, the old administrative building located at 1620 Isom was demolished due to its structural instability and disrepair. A new concrete fence has been approved for this location to provide security for the current EMS station that remains at the location.

The administrative building's power infrastructure has been found to be in need of an upgrade in order to handle the electrical demands of not only the administration, but also the emergency communications center. Concurrently, the backup generators that power the building require constant maintenance to maintain reliability. Upgrades began in 2016 at a cost of \$150,000.

In addition, the Board voted to hire an architect firm to design two future stations to replace stations 92 and 94. The project is currently ongoing.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Harris County Emergency Services District #1's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ms. Cathy Sunday, Board Chair, 2800 Aldine Bender Rd., Houston, TX 77032.

**Harris County Emergency Services District #1  
Governmental Fund Balance Sheet  
and Statement of Net Position**

| <i>December 31, 2016</i>  | General Fund         | Adjustments         | Statement of<br>Net Position |
|---|----------------------|---------------------|------------------------------|
| <b>Assets</b>   |                      |                     |                              |
| Cash and cash equivalents   | \$ 6,676,822         | \$ -                | \$ 6,676,822                 |
| Patient services receivable, net  | 96,043               | -                   | 96,043                       |
| Property taxes receivable, net  | 13,103,668           | -                   | 13,103,668                   |
| Other receivables   | 17,126               | -                   | 17,126                       |
| Prepaid expenses  | 39,848               | -                   | 39,848                       |
| Capital assets, net   | -                    | 6,668,374           | 6,668,374                    |
| Other assets  | -                    | 800,000             | 800,000                      |
| <b>Total assets</b>   | <b>\$ 19,933,507</b> | <b>\$ 7,468,374</b> | <b>\$ 27,401,881</b>         |
| <b>Liabilities</b>  |                      |                     |                              |
| Accounts payable  | \$ 769,846           | \$ -                | \$ 769,846                   |
| Interest payable  | -                    | 14,169              | 14,169                       |
| Deferred gain from terminated lease   | -                    | 30,727              | 30,727                       |
| Loan payable - due in one year  | -                    | 380,514             | 380,514                      |
| Loan payable - due in more than one year                                      | -                    | 2,548,217           | 2,548,217                    |
| <b>Total liabilities</b>  | <b>769,846</b>       | <b>2,973,627</b>    | <b>3,743,473</b>             |
| <b>Deferred inflows of resources</b>  |                      |                     |                              |
| Deferred property tax revenue   | 14,633,009           | 63,239              | 14,696,248                   |
| <b>Fund balance</b>   |                      |                     |                              |
| Invested in capital assets, net of related debt                               | -                    | 3,739,643           | 3,739,643                    |
| Unrestricted  | 4,530,652            | 691,865             | 5,222,517                    |
| <b>Total fund balance</b>   | <b>4,530,652</b>     | <b>4,431,508</b>    | <b>8,962,160</b>             |
| <b>Total liabilities, deferred inflows of resources,<br/>and fund balance</b> | <b>\$ 19,933,507</b> |                     |                              |
| <b>Net position - unrestricted</b>  | <b>\$ 8,962,160</b>  |                     | <b>\$ 8,962,160</b>          |

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

**Harris County Emergency Services District #1  
Governmental Fund Balance Sheet  
and Statement of Net Position (Continued)**

|   |                     |
|---|---------------------|
| Total fund balance of governmental fund   | \$ 4,530,652        |
| Amounts reported for governmental activities in the statement of net position are different because:  |                     |
| The communication center license used in governmental activities is not a financial resource and therefore is not reported in governmental fund | 800,000             |
| Capital assets used in governmental activities are not resources and therefore are not reported in governmental funds                           |                     |
| Capital assets not being depreciated - land   | 693,804             |
| Capital assets being depreciated - buildings and improvements, vehicles, and equipment  | 13,079,818          |
| Less accumulated depreciation   | (7,105,248)         |
| Other long-term assets are not available to pay for current period expenditures and are deferred inflows of resources in the funds.             | (63,239)            |
| Gains incurred from a terminated lease and related capital assets would not be reported, nor would a deferred gain                              | (30,727)            |
| Loan payable and interest payable are not due and payable in the current period and therefore not reported in the general fund                  | (2,942,900)         |
| <b>Net position of governmental activities</b>  | <b>\$ 8,962,160</b> |

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

**Harris County Emergency Services District #1  
Governmental Fund Revenues, Expenditures and  
Changes in Fund Balance and Statement of Activities**

| <i>For the year ended December 31, 2016</i> | General Fund        | Adjustments         | Statement of<br>Activities |
|---|---------------------|---------------------|----------------------------|
| <b>Revenues</b>                             |                     |                     |                            |
| Property taxes revenue, net                 | \$ 14,162,233       | \$ (63,239)         | \$ 14,098,994              |
| Lease revenues                              | 630,636             | -                   | 630,636                    |
| Property taxes penalties and interest       | 198,503             | -                   | 198,503                    |
| Gain on disposal of capital assets          | 22,798              | 17,426              | 40,224                     |
| Interest income                             | 7,526               | -                   | 7,526                      |
| Contributions                               | 8,729               | -                   | 8,729                      |
| <b>Total revenues</b>                       | <b>15,030,425</b>   | <b>(45,813)</b>     | <b>14,984,612</b>          |
| <b>Expenditures</b>                         |                     |                     |                            |
| Current:                                    |                     |                     |                            |
| Program expense                             | 10,329,601          | -                   | 10,329,601                 |
| Depreciation                                | -                   | 1,082,575           | 1,082,575                  |
| Contributions                               | 1,930               | -                   | 1,930                      |
| Collection fees                             | 76,453              | -                   | 76,453                     |
| Professional fees                           | 129,142             | -                   | 129,142                    |
| Appraisal fees                              | 107,544             | -                   | 107,544                    |
| General and administrative expenses         | 79,224              | -                   | 79,224                     |
| Capital outlay                              | 1,280,606           | (1,280,606)         | -                          |
| Debt service:                               |                     |                     |                            |
| Principal payment                           | 361,972             | (361,972)           | -                          |
| Interest expense                            | 157,604             | (1,389)             | 156,215                    |
| <b>Total expenditures</b>                   | <b>12,524,076</b>   | <b>(561,392)</b>    | <b>11,962,684</b>          |
| <b>Excess of revenues over expenditures</b> | <b>2,506,349</b>    | <b>(2,506,349)</b>  | <b>-</b>                   |
| <b>Change in net position</b>               | <b>-</b>            | <b>3,021,928</b>    | <b>3,021,928</b>           |
| <b>Fund balance/net position:</b>           |                     |                     |                            |
| <b>Beginning of year</b>                    | <b>2,024,303</b>    | <b>3,915,929</b>    | <b>5,940,232</b>           |
| <b>End of year</b>                          | <b>\$ 4,530,652</b> | <b>\$ 4,431,508</b> | <b>\$ 8,962,160</b>        |

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

**Harris County Emergency Services District #1  
Governmental Fund Revenues, Expenditures and  
Changes in Fund Balance and Statement of Activities (Continued)**

|   |              |
|---|--------------|
| Net change in fund balance of governmental fund   | \$ 2,506,349 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> |              |
| Expenditure for capital assets  | 1,280,606    |
| Depreciation expense  | (1,082,575)  |
| Loss on disposal of assets  | (23,543)     |
| Deferred gain on the sale of capital assets is recorded on the statement of activities but not in the governmental funds  | 40,969       |
| Repayment of loan principal is an expenditure in the governmental fund, but the repayment reduces loans payable in the statement of net position  | 361,972      |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.<br>This represents the net change in deferred property tax revenue   | (63,239)     |
| Some expenses reported in the statement of activities do not require the use of current financial resources not reported as expenditures in governmental funds  | 1,389        |
| Change in net position of governmental activities   | \$ 3,021,928 |

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

# Harris County Emergency Services District #1

## Notes to Financial Statements

### NOTE 1: DESCRIPTION OF ORGANIZATION

Harris County Emergency Services District #1 (the "District") was created on May 4, 1991 by approval of the voters of North Harris County, Texas. The purpose of the District is to provide emergency ambulance services and medical aid, generally within the boundaries of the District in North Harris County. The governing statutes for emergency service districts are Chapter 755 of the Texas Health and Safety Code. The District is not a component unit of another governmental entity. The District is governed by a five-member board of commissioners elected by the residents of North Harris County.

Effective June 1, 2011 the District created Harris County Emergency Corps ("HCEC") and transferred emergency medical services to HCEC.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Measurement Focus and Basis of Accounting*

##### Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the reporting government as a whole. These statements are prepared on the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flow. Annual assessments are recognized as revenues in the year for which they are levied.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental activities are those financed through taxes, intergovernmental revenues, and other non-exchange revenues and are usually reported in governmental and internal service funds. Business activities are financed in whole or in part through fees charged for goods or services to the general public and are usually reported in proprietary funds. The District does not have any business-type activities.

Under the government-wide financial statements, net position is classified into two components 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 outstanding balances of any bonds, notes or other borrowings.

Unrestricted - This component of net position consists of resources derived from the collection of property taxes and the collection of medical services provided prior to June 1, 2011. These resources are used for transactions relating to the funding of the ambulance services provided by HCEC and general operations of the District, and may be used at the discretion of the board to meet current expenses for any purposes.

# Harris County Emergency Services District #1

## Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fund Financial Statements

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and have been prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction that can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenue available if it is collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

#### **Fund Accounting**

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The fund the District uses is described below:

General Fund - The general fund is the general operating fund of the District. It accounts for all activities.

#### **Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The District only utilizes an unassigned fund balance – this classification includes amounts that have not been assigned to other funds and have not been restricted, committed, or assigned for specific purposes within the general fund.

#### **Deferred Inflows of Resources**

The District’s collection or billing of the subsequent year’s property tax represents an acquisition of net position or fund balance that applies to a future period and thus, will not be recognized as an inflow of resources (revenue) until that time.

# Harris County Emergency Services District #1

## Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Ambulance and Emergency Service Agreement***

The District has contracted with HCEC, a non-profit corporation, to furnish emergency medical service and transportation to the District service area. The District acknowledges that a majority of emergency medical services conducted within its service area are to indigent, uninsured or underinsured individuals. Under the terms of the Ambulance and Emergency Service Agreement, the District agreed to serve as the payer of last resort. The District transferred operational responsibility of these emergency services to HCEC and agreed to compensate HCEC for transport services provided to uninsured patients. The District pays HCEC the adjusted average cost of transport (agreed to annually) less any payments received from third parties. The total amount of this compensation is limited to 96% of the District's annual collected tax revenue.

Also under the Ambulance Service Agreement the District agrees to lease real and emergency service equipment under master leases to HCEC. The District also agrees to purchase two new ambulances annually.

The service agreement was renewed January 28, 2014 and will expire December 31, 2018.

#### ***Capital Assets***

Capital assets are stated at cost; items costing less than \$5,000 are expensed when purchased. Depreciation is calculated using the straight-line method over estimated useful lives of 20 years for buildings, 10 years for improvements and 3 to 5 years for other depreciable assets. Costs of minor repairs and maintenance are charged to expense when incurred.

#### ***Federal Income Tax***

The District is a political subdivision of the State of Texas and is exempt from federal income taxes.

#### ***Use of Estimates***

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used. Significant estimates include the collectability of property taxes and the recoverability and useful lives of long-lived assets.

#### ***Budget and Budgetary Accounting***

Prior to the start of each fiscal year, the District approves an operating budget in accordance with accounting principles generally accepted in the United States of America. Any revisions to the budget have to be approved. Accordingly, a budget to actual comparison is presented as required supplementary information.



## Harris County Emergency Services District #1 Notes to Financial Statements

### NOTE 3: DEPOSITS

Custodial credit risk for deposit with financial institutions is the risk that in the event of bank failure the District's deposits may not be returned.

The carrying amount (book balance) of the District's demand deposits with financial institutions as of December 31, 2016 totaled \$6,676,822 and the bank balance totaled \$6,716,680. At December 31, 2016, interest bearing deposits were covered by \$6,069,769 collateral pledged in the District's name in addition to \$250,000 FDIC insurance. The remaining balance of the demand deposits totaling \$396,911 was uncollateralized at December 31, 2016.

### NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable and the related allowance for doubtful accounts consist of the following:

| <i>December 31,</i>                  | 2016          |
|--------------------------------------|---------------|
| Patient services receivable          | \$ 64,057,170 |
| Less allowance for doubtful accounts | (63,961,127)  |
| Patient services receivable, net     | \$ 96,043     |
| Property taxes receivable            | \$ 14,006,688 |
| Less allowance for doubtful accounts | (903,020)     |
| Property taxes receivable, net       | \$ 13,103,668 |

### NOTE 5: OTHER ASSETS

Other assets consist of an emergency communication center. The District acquired the communication center license for \$800,000 which is recorded in the statement of net position as other assets. The license is perpetual and is not required to be reported as a capital asset because it is used to generate revenue for the District. The communication center receives emergency calls and dispatches the appropriate emergency services team. HCEC uses the communication center under the facility lease with the District (Note 11) and assumed the contracts with local volunteer fire departments. The District evaluates intangible assets for impairment annually. Management believes there has been no impairment to the communication license, and accordingly no provision for impairment has been made.

## Harris County Emergency Services District #1 Notes to Financial Statements

### NOTE 6: CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2016 were as follows:

| <i>December 31,</i>                            | Balance<br>January 1,<br>2016 | Increase    | Decrease    | Balance<br>December 31,<br>2016 |
|--|-------------------------------|-------------|-------------|---------------------------------|
| Not depreciated                                |                               |             |             |                                 |
| Land   | \$ 693,804                    | \$ -        | \$ -        | \$ 693,804                      |
| Other capital assets                           |                               |             |             |                                 |
| Buildings and improvements                     | 7,486,148                     | -           | (102,124)   | 7,384,024                       |
| Ambulances and<br>other vehicles               | 2,428,791                     | 656,074     | (29,225)    | 3,055,640                       |
| Furniture and equipment                        | 2,015,622                     | 624,532     | -           | 2,640,154                       |
| Total depreciated                              | 11,930,561                    | 1,280,606   | (131,349)   | 13,079,818                      |
| Less accumulated depreciation                  |                               |             |             |                                 |
| Buildings and improvements                     | (3,081,748)                   | (349,854)   | 102,124     | (3,329,478)                     |
| Ambulances and<br>other vehicles               | (1,247,321)                   | (627,001)   | 5,682       | (1,868,640)                     |
| Furniture and equipment                        | (1,801,410)                   | (105,720)   | -           | (1,907,130)                     |
| Total accumulated depreciation                 | (6,130,479)                   | (1,082,575) | 107,806     | (7,105,248)                     |
| Net capital assets subject<br>to depreciation  | 5,800,082                     | 198,031     | (23,543)    | 5,974,570                       |
| Government Activities -<br>capital assets, net | \$ 6,493,886                  | \$ 198,031  | \$ (23,543) | \$ 6,668,374                    |

Depreciation expense for the year ended December 31, 2016 totaled \$ 1,082,575.

### NOTE 7: NOTES PAYABLE

During 2005, the District acquired a note payable with Wells Fargo Bank, N.A. ("Wells Fargo") of \$500,000, with an interest rate of 5.375%, for the purchase of land and the construction of two buildings. Annual payments, including interest, of approximately \$41,400 are due on May 10 of each year through 2018. On May 10, 2019, a lump-sum payment of approximately \$207,000 is due for the remaining balance of the note. At December 31, 2016, the balance on this note was \$263,611. The note is secured by the land purchased.

## Harris County Emergency Services District #1 Notes to Financial Statements

### NOTE 7: NOTES PAYABLE (Continued)

On August 5, 2008, the District acquired a note payable with DeLage Landen Public Finance, LLC of \$4,920,533, with an interest rate of 4.987%, for the purchase of land, a building and building improvements. An initial interest-only payment of \$111,000 was due in January 2009, followed by monthly payments, including accrued interest, of approximately \$39,800 beginning February 15, 2009 through June 15, 2018, and approximately \$36,900 beginning July 15, 2018 through December 15, 2023. The note carries a prepayment penalty for the first five years. Future tax receipts are pledged as collateral for the note. The balance of the note at December 31, 2016 was \$2,665,120.

Notes payable activities for the year ended December 31, 2016 were as follows:

|   | Balance<br>January 1,<br>2016 | Increase    | Decrease            | Balance<br>December 31,<br>2016 | Current<br>Portion |
|---|-------------------------------|-------------|---------------------|---------------------------------|--------------------|
| Wells Fargo note payable                      | \$ 289,459                    | \$ -        | \$ (25,848)         | \$ 263,611                      | \$ 27,238          |
| De Lage Landen Public<br>Finance note payable | 3,001,244                     | -           | (336,124)           | 2,665,120                       | 353,276            |
| <b>Total notes payable</b>                    | <b>\$ 3,290,703</b>           | <b>\$ -</b> | <b>\$ (361,972)</b> | <b>\$ 2,928,731</b>             | <b>\$ 380,514</b>  |

Future annual payments are as follows:

| <i>Years ending December 31,</i> | Principal           | Interest          | Total               |
|----------------------------------|---------------------|-------------------|---------------------|
| 2017                             | \$ 380,514          | \$ 139,064        | \$ 519,578          |
| 2018                             | 382,372             | 119,758           | 502,130             |
| 2019                             | 561,312             | 100,796           | 662,108             |
| 2020                             | 371,684             | 71,590            | 443,274             |
| 2021                             | 390,649             | 52,626            | 443,275             |
| 2022 - 2023                      | 842,200             | 44,439            | 886,639             |
| <b>Total future payments</b>     | <b>\$ 2,928,731</b> | <b>\$ 528,273</b> | <b>\$ 3,457,004</b> |

## Harris County Emergency Services District #1 Notes to Financial Statements

### **NOTE 8: PROPERTY TAX**

The District's property tax is levied each October 1<sup>st</sup> on the assessed value listed as of the prior January 1 for all real and personal property located in the tax area of the District. Taxes are due on the receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. These property tax receivables are presented on the statement of net position with offsetting deferred revenue to reflect amounts not collected as of December 31, 2016. The Harris County Tax Assessor and Collector is the collecting agency and remits collections to the District, net of a collection fee.

For the 2016 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an adjusted assessment of \$14,696,248 on the assessment valuation of approximately \$14,696,248,000. As of December 31, 2016, \$4,292,255 of the 2016 assessment has been collected and applied against the property tax receivable balance outstanding. The current assessed value is preliminary and the District expects that the tax collector will adjust values as protested value and additional properties are identified. Revenue recognition for the 2016 assessment has been fully deferred to 2017.

The \$903,020 allowance for uncollectible taxes is based upon historical experience in collecting property taxes.

### **NOTE 9: DEFERRED GAIN**

During 2013, the District leased certain vehicles to HCEC under a capital lease agreement. The lease was cancelled in August 2013 as a result of a state law change requiring assets purchased with public funds to stay on the government entity's books. Management revised the lease agreement in order to lease the vehicles to HCEC under an operating lease. The new operating lease was effective in February 2014. The cancellation resulted in a gain of \$71,696 to be amortized in connection with the new operating lease. During 2016, a gain on disposal of capital assets totaled \$40,969.

### **NOTE 10: TRANSACTION WITH HARRIS COUNTY EMERGENCY CORPS**

Under the terms of the Ambulance and Emergency Service Agreement, during the year ended December 31, 2016, the District recorded program expenses totaling \$10,329,601 consisting of payment to HCEC for services provided, of which \$758,099 is due to HCEC as of December 31, 2016, and is included in accounts payable on the accompanying financial statements.

The District has entered into a lease agreement with HCEC for the use of various other properties for monthly payments totaling \$45,553 and expiring on June 30, 2019. The District also leases ambulances and vehicles under another lease agreement totaling \$7,000 per month and expiring September 30, 2017. During 2016, the District received rental income for the property and capital assets totaling \$630,636, respectively (Note 11).

## Harris County Emergency Services District #1 Notes to Financial Statements

### NOTE 10: TRANSACTION WITH HARRIS COUNTY EMERGENCY CORPS (Continued)

Upon transferring operations to HCEC on June 1, 2011, the District agreed to donate to HCEC all cash received from collections of patient services receivable as of June 1, 2011. During 2016, the District donated collected receivables to HCEC totaling \$1,930.

Commissioners are reimbursed a maximum of \$3,000 annually for their service. Reimbursements totaled \$10,550 for the year ended December 31, 2016, and are included in general and administrative expenses on the accompanying financial statements.

### NOTE 11: OPERATING LEASES

The District leases property and equipment under non-cancellable arrangements to HCEC expiring at various times through June 2019. Property and equipment under lease consist of substantially all capital assets listed in Note 6.

Minimum lease payments due to the District under these leases are as follows:

| <i>Year ending December 31,</i> |              |
|---------------------------------|--------------|
| 2017                            | \$ 609,636   |
| 2018                            | 546,636      |
| 2019                            | 273,318      |
| <hr/>                           |              |
| Total minimum lease payments    | \$ 1,429,590 |

Rental income for the property and equipment totaled \$630,636 for the year ended December 31, 2016.



**REQUIRED SUPPLEMENTARY INFORMATION**

**Harris County Emergency Services District #1  
Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget to Actual – General Fund**

| <i>For the year ended December 31, 2016</i>     | Original and<br>Final Budget | Actual              | Variance with<br>Final Budget |
|---|------------------------------|---------------------|-------------------------------|
| <b>Revenues</b>                                 |                              |                     |                               |
| Property taxes revenue, net                     | \$13,969,819                 | \$ 14,162,233       | \$ 192,414                    |
| Lease revenues                                  | 630,636                      | 630,636             | -                             |
| Property taxes penalties and interest           | 150,000                      | 198,503             | 48,503                        |
| Interest income                                 | 2,200                        | 7,526               | 5,326                         |
| Contributions                                   | 7,000                        | 8,729               | 1,729                         |
| Other income                                    | 10,000                       | 22,798              | 12,798                        |
| <br>  |                              |                     |                               |
| Total available revenues                        | 14,769,655                   | 15,030,425          | 260,770                       |
| <b>Expenditures</b>                             |                              |                     |                               |
| Program expense                                 | 13,555,027                   | 10,329,601          | 3,225,426                     |
| Contributions                                   | 10,000                       | 1,930               | 8,070                         |
| Collection fees                                 | 35,000                       | 76,453              | (41,453)                      |
| Professional fees                               | 138,000                      | 129,142             | 8,858                         |
| Appraisal fees                                  | 120,000                      | 107,544             | 12,456                        |
| General and administrative expenses             | 91,500                       | 79,224              | 12,276                        |
| Depreciation                                    | 337,000                      | -                   | 337,000                       |
| Capital outlay                                  | 325,000                      | 1,280,606           | (955,606)                     |
| Debt service                                    |                              |                     |                               |
| Principal payments                              | -                            | 361,972             | (361,972)                     |
| Interest expense                                | 143,000                      | 157,604             | (14,604)                      |
| <br>  |                              |                     |                               |
| Total expenditures                              | 14,754,527                   | 12,524,076          | 2,230,451                     |
| <br>  |                              |                     |                               |
| <b>Excess of revenues<br/>over expenditures</b> | <b>\$ 15,128</b>             | <b>\$ 2,506,349</b> | <b>\$ 2,491,221</b>           |

See independent auditor's report.