

**Harris County Emergency
Services District #1**

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

December 31, 2018



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Harris County Emergency Services District #1
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December 31, 2018

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INDEPENDENT AUDITORS' 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, 2018, 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.

Auditors' 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 auditors' 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, 2018, 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 8 and the budget to actual comparison for the major fund on page 22 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 30, 2019

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, 2018. It includes comparative data for the year ended December 31, 2017 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 2018:

- 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 \$11,693,000 in connection with this agreement for services provided in 2018.
- 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 over 1,900 properties missing from the tax rolls that represent new tax value to the district.
- Under the Ambulance and Emergency Service Agreement, the District agrees to purchase at least two new ambulances annually. During October 2018, the District approved the remounting of three existing ambulances with new chassis. Frazer Ambulance will remount the boxes on the new chassis at a cost not to exceed \$456,171. Additionally, the District approved the purchase of two response support vehicles to replace aging fleet vehicles not to exceed \$91,290.
- In February 2018, the District approved the purchase of 47 cardiac monitors with accessories as well as 5 auto-CPR compression devices. The cost totaled \$2,354,788 and included a long term service agreement.
- The District agreed in May 2018 to finance the construction of stations 92 and 94 with a loan in the amount to \$7,200,000 with an issuance cost of \$79,000 and a 15 year term.

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.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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.

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>	2018	2017	Increase (Decrease)
Assets:			
Cash and cash equivalents	\$ 3,303,000	\$11,659,000	\$ (8,356,000)
Investments	15,094,000	-	15,094,000
Property taxes receivable, net	12,789,000	11,664,000	1,125,000
Patient services receivable, net	92,000	96,000	(4,000)
Other receivable	106,000	17,000	89,000
Prepaid expenses	40,000	40,000	-
Capital assets, net	10,529,000	6,149,000	4,380,000
Other assets	800,000	800,000	-
Total assets	42,753,000	30,425,000	12,328,000

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

<i>December 31,</i>	2018	2017	Increase (Decrease)
Liabilities:			
Accounts payable	\$ 1,620,000	\$ 1,494,000	\$ 126,000
Interest payable	29,000	14,000	15,000
Long-term debt - due within one year	1,115,000	325,000	790,000
Long-term debt - due in more than one year	9,616,000	1,958,000	7,658,000
Total liabilities	12,380,000	3,791,000	8,589,000
Deferred inflows of resources			
Deferred property tax revenue	16,229,000	15,565,000	664,000
Net position			
Net investment in capital assets	5,097,000	3,866,000	1,231,000
Unrestricted	9,047,000	7,202,000	1,845,000
Total net position	\$ 14,144,000	\$ 11,068,000	\$ 3,076,000

The District's cash and cash equivalents is held in demand and money market funds. During 2018, the District's Board of Commissioners approved transferring excess funds into a public funds investment pool. The District's balance of patient service receivable on activity related to the ambulance services performed prior to June 30, 2011 remained flat to 2017. 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. The increase in property tax receivables is driven by increased valuations of properties and timing of remittance of payments to the District.

During 2018, the District's major fixed assets purchased consisted of new land for future projects totaling \$884,098, the continuing construction of two new EMS facilities totaling \$1,510,891, various medical equipment totaling \$3,090,964, and various other items with a grand total of additions in the amount of \$5,486,953. This increase was offset by annual depreciation expense totaling \$1,097,438 for the year.

At December 31, 2018, the District owed HCEC \$1,080,662 for ambulances services. During 2018 the District entered into additional debt agreements for capital related projects totaling approximately \$9.3 million. During 2018, the District paid down these debt by \$906,985, leaving an outstanding balance of \$10,730,756 at December 31, 2018. See the long-term debt section for more information.

Deferred property tax revenue increased by approximately \$664,000 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 2018 and 2017 tax levy years. Tax collection is handled by the Harris County Tax Assessor's Office.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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>	2018	2017	Increase (Decrease)
Revenues:			
Property taxes, net	\$ 15,919,000	\$14,844,000	\$ 1,075,000
Lease revenue	631,000	631,000	-
Other general revenues	196,000	101,000	95,000
Contributions	9,000	7,000	2,000
Total revenues	16,755,000	15,583,000	1,172,000
Expenditures:			
Program	13,460,000	13,326,000	134,000
Interest	219,000	151,000	68,000
Total expenditures	13,679,000	13,477,000	202,000
Change in net position	3,076,000	2,106,000	970,000
Net position, beginning of year	11,068,000	8,962,000	2,106,000
Net position, end of year	\$ 14,144,000	\$ 11,068,000	\$ 3,076,000

In 2018, property tax revenue increased \$1,075,000 compared to 2017, due to the additional annexed areas and increase in property valuations. During 2018 the District continued to lease buildings and ambulances to HCEC under the amended master leasing agreement. The initial term of the leasing agreement expired December 31, 2018, however the agreement provides for an automatic extension until December 31, 2020.

Overall expenditures were consistent to 2017. 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 \$13.5 million, which is approximately \$6.9 million more than the prior fiscal year. This increase is due to the District's Government Capital loan, which will provide funds for construction of the new stations into 2019. The balance of these funds are considered restricted (approximately \$5.3 million) with all of the remaining assets in the general fund being available resources to be used at the District's discretion.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Capital Assets

<i>December 31,</i>	2018	2017
Capital assets		
Land	\$ 1,579,000	\$ 694,000
Construction in progress	1,789,000	278,000
Buildings and improvements	7,486,000	7,564,000
Ambulances and other vehicles	2,600,000	2,969,000
Furniture, fixtures and equipment	4,603,000	2,658,000
Total gross capital assets	18,057,000	14,163,000
Less accumulated depreciation	(7,528,000)	(8,014,000)
Total net capital assets	\$ 10,529,000	\$ 6,149,000

Capital assets, net increased during 2018 as a result of purchasing new land for future projects totaling approximately \$885,000, construction in progress for two new EMS facilities for approximately \$1,511,000, various medical and other equipment totaling approximately \$3,090,000, offset by depreciation expense of approximately \$1,097,000. In addition, the District disposed of approximately \$1.5 million in fully depreciated assets during 2018.

Long-term Debt

<i>December 31,</i>	2018	2017
Debt		
De Lage Landen Public Finance note payable	\$ 1,958,000	\$ 2,283,000
Government Capital note payable	6,810,000	-
Stryker Finance capital lease	1,963,000	-
	\$ 10,731,000	\$ 2,283,000

During 2018 the District entered into two new long-term debt agreements. In May 2018, the District entered into a note payable agreement with Government Capital Corporation ("Government Capital") totaling \$7 million for the construction of two new EMS facilities. The agreement requires semi-annual payments, including interest, of \$300,430 payable on May 15 and November 15 of each year through 2033. The note is secured by ad valorem tax revenues.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Also in 2018, the District entered into a capital lease agreement with Stryker Sales Corporation ("Stryker") totaling \$2,354,789 for new cardiac monitors and a long-term warranty. Annual payments of \$392,465 are due May 1 of each year through 2023.

The District continued to make scheduled payments in accordance with the debt agreements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District budgets conservatively. Revenues are budgeted based on historic trends and the adopted levy. General Fund revenues overall were in line with budget except that the general fund budget does not include loan proceeds. Expenditures were higher than budget by \$1.5 million as although the District budgets the amount reimbursable to HCEC under the Ambulance and Emergency Service Agreement at the maximum projected amount collected from annual tax revenues (96%), this favorable budget variance for program expense was offset by additional expenditures related to capital outlay for asset additions previously discussed in the Capital Asset section. The District's budget was not amended during the fiscal year.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

In 2016, the Board voted to hire an architect firm to design two future stations to replace stations 92 and 94. During 2018, construction began on the \$6.2 million project of both stations which a projected completion date of May 2019.

In March 2018, the District agreed to purchase two parcels of land from Harris County Emergency Services District #10 for the constructions of new EMS stations. This purchase allows future station 94 to be located on Aldine Bender Road and future station 97 to be located on the second land parcel on Woodland Hills Drive. The Board has approved the architect firm to design station 97.

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, 2018</i>	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 3,302,600	\$ -	\$ 3,302,600
Investments	15,093,680	-	15,093,680
Property taxes receivable, net	12,789,208	-	12,789,208
Patient services receivable, net	92,641	-	92,641
Other receivables	106,680	-	106,680
Prepaid expenses	39,848	-	39,848
Capital assets, net	-	10,528,556	10,528,556
Other assets	-	800,000	800,000
Total assets	\$ 31,424,657	\$ 11,328,556	\$ 42,753,213
Liabilities			
Accounts payable	\$ 1,619,797	\$ -	1,619,797
Interest payable	-	29,369	29,369
Long-term debt - due in one year	-	1,115,169	1,115,169
Long-term debt - due in more than one year	-	9,615,587	9,615,587
Total liabilities	1,619,797	10,760,125	12,379,922
Deferred inflows of resources			
Deferred property tax revenue	16,290,675	(61,988)	16,228,687
Fund balance			
Restricted	5,299,366	(5,299,366)	
Unassigned	8,214,819	(8,214,819)	
Total fund balance	13,514,185	(13,514,185)	
Total liabilities, deferred inflows of resources, and fund balance	\$ 31,424,657		
Net Position			
Net investment in capital assets		5,097,166	5,097,166
Unrestricted		9,047,438	9,047,438
Total net position		\$ 14,144,604	\$ 14,144,604

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	\$ 13,514,185
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	1,578,902
Capital assets not being depreciated - construction in progress	1,788,714
Capital assets being depreciated - buildings and improvements, vehicles, and equipment	14,688,524
Less accumulated depreciation	(7,527,584)
Other long-term assets are not available to pay for current period expenditures and are deferred inflows of resources in the funds.	61,988
Debt payable and interest payable are not due and payable in the current period and therefore not reported in the general fund	(10,760,125)
Net position of governmental activities	\$ 14,144,604

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, 2018</i>	General Fund	Adjustments	Statement of Activities
Revenues			
Property taxes revenue, net	\$ 15,416,393	\$ 299,400	\$ 15,715,793
Lease revenues	630,636	-	630,636
Property taxes penalties and interest	203,231	-	203,231
Gain on disposal of capital assets and other income	89,542	(9,858)	79,684
Interest income	117,312	-	117,312
Contributions	8,808	-	8,808
Total revenues	16,465,922	289,542	16,755,464
Expenditures			
Current:			
Program expense	11,692,518	-	11,692,518
Depreciation	-	1,097,438	1,097,438
Collection fees	94,168	-	94,168
Professional fees	302,364	-	302,364
Appraisal fees	118,165	-	118,165
General and administrative expenses	76,518	-	76,518
Capital outlay	5,486,953	(5,486,953)	-
Debt service:			
Principal payment	906,985	(906,985)	-
Loan costs	79,000	-	79,000
Interest expense	203,876	15,200	219,076
Total expenditures	18,960,547	(5,281,300)	13,679,247
Excess (deficiency) of revenues over expenditures	(2,494,625)	2,494,625	-
Other financing sources			
Loan issue	7,000,000	(7,000,000)	
Capital lease	2,354,789	(2,354,789)	
Total other financing sources	9,354,789	(9,354,789)	
Excess (deficiency) of revenues and other financing sources over expenditures	6,860,164	(6,860,164)	
Change in net position		3,076,217	3,076,217
Fund balance/net position:			
Beginning of year	6,654,021	4,414,366	11,068,387
End of year	\$ 13,514,185	\$ 630,419	\$ 14,144,604

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	\$ 6,860,164
Amounts reported for governmental activities in the statement of activities are different because:	
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.	
Expenditure for capital assets	5,486,953
Depreciation expense	(1,097,438)
Loss on disposal of capital assets	(9,858)
Debt proceeds provide current financial resources to the governmental fund, but issuing debt increases long-term liabilities in the statement of net position.	
	(9,354,789)
Repayment of loan principal is an expenditure in the governmental fund, but the repayment reduces loans payable in the statement of net position	
	906,985
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the government fund	
	(15,200)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
This represents the net change in deferred property tax revenue	299,400
Change in net position of governmental activities	\$ 3,076,217

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:

Net Investment in Capital Assets - 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.

Restricted fund balance – this classification includes amounts that have constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, laws and regulations or through enabling legislation. The District’s balance that is restricted by creditors is to be used for expenditures related construction of the new EMS facilities.

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.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed.

Harris County Emergency Services District #1

Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 the initial term of the agreement expired December 31, 2018. The agreement included a provision to continue until December 31, 2020 of which the District and HCEC operated under until March 31, 2019. Effective April 1, 2019, the District and HCEC entered into a new agreement at substantially the same terms.

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.

Harris County Emergency Services District #1

Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2018 totaled \$3,302,600 and the bank balance totaled \$3,345,867. At December 31, 2018, interest bearing deposits were covered by \$2,845,900 collateral pledged in the District's name in addition to \$250,000 FDIC insurance. The remaining balance of the demand deposits totaling \$249,967 was uncollateralized at December 31, 2018.

NOTE 4: AUTHORIZED INVESTMENTS

The Board of Commissioners has adopted a written investment policy regarding the investments of its funds as defined in the Public Funds Investment Act of 1997 (Chapter 2256, Texas Government Code). Such investments include (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) local government investment pools; and (4) various other items that comply with the Public Funds Investment Act and the District's investment policy.

NOTE 5: INVESTMENTS

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. In accordance with the District's investment policy, the District limits its exposure to interest rate risk by structuring its portfolio to provide safety and liquidity of funds while maximizing yields for operating funds not immediately needed. The investment policy limits the maximum stated maturity on any investments to six months. Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The District's investment policy does not limit the amount of funds that may be invested in any authorized investment.

Harris County Emergency Services District #1

Notes to Financial Statements

NOTE 5: INVESTMENTS (Continued)

The District's investment in the Texas CLASS local government investment pool is rated AAAM by Standard & Poors and maintains a weighted average maturity of 82 days or less. The District considers the investments to have maturities of less than one year due to the fact that share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Investments are reported at fair value in accordance with GASB Statements No. 79 and Statement No. 31, and therefore is not required to be categorized within the fair value hierarchy for purposes of GASB Statement No. 72. There is no material difference between the fair value of the District's position in TexasCLASS and the amortized costs of the pool shares at December 31, 2018.

NOTE 6: ACCOUNTS RECEIVABLE

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

<i>December 31,</i>	2018
Patient services receivable	\$ 64,053,768
Less allowance for doubtful accounts	(63,961,127)
<u>Patient services receivable, net</u>	<u>\$ 92,641</u>
Property taxes receivable	\$ 13,692,228
Less allowance for doubtful accounts	(903,020)
<u>Property taxes receivable, net</u>	<u>\$ 12,789,208</u>

The allowance for doubtful accounts for patient services receivable is based upon management's estimate. The allowance for property taxes receivable is based upon historical experience in collecting property taxes (Note 10).

NOTE 7: 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 8: CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2018 were as follows:

<i>December 31,</i>	Balance January 1, 2018	Increase	Decrease	Balance December 31, 2018
Not depreciated				
Land	\$ 693,804	\$ 885,098	\$ -	\$ 1,578,902
Construction in progress	277,823	1,510,891	-	1,788,714
Other capital assets				
Buildings and improvements	7,563,535	-	(77,868)	7,485,667
Ambulances and other vehicles	2,969,436	-	(369,268)	2,600,168
Furniture and equipment	2,658,473	3,090,964	(1,146,748)	4,602,689
Total depreciated	13,191,444	3,090,964	(1,593,884)	14,688,524
Less accumulated depreciation				
Buildings and improvements	(3,725,553)	(357,607)	68,009	(4,015,151)
Ambulances and other vehicles	(2,256,959)	(459,809)	369,269	(2,347,499)
Furniture and equipment	(2,031,660)	(280,022)	1,146,748	(1,164,934)
Total accumulated depreciation	(8,014,172)	(1,097,438)	1,584,026	(7,527,584)
Net capital assets subject to depreciation	5,177,272	1,993,526	(9,858)	7,160,940
Government Activities - capital assets, net	\$ 6,148,899	\$ 4,389,515	\$ (9,858)	\$ 10,528,556

Depreciation expense for the year ended December 31, 2018 totaled \$1,097,438.

NOTE 9: LONG-TERM DEBT

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, 2018 was \$1,958,175.

Harris County Emergency Services District #1 Notes to Financial Statements

NOTE 9: LONG-TERM DEBT (Continued)

During 2018, the District acquired a note payable with Government Capital Corporation, (“Government Capital”) of \$7,000,000, with an interest rate of 3.45%, for the construction of two buildings. Semi-annual payments, including interest, of \$300,430 are due on May 15 and November 15 of each year through 2033. The note is secured by the ad valorem tax revenues.

During 2018, the District acquired a capital lease finance note from Stryker Sales Corporation of \$2,354,789, with an interest rate of 0.00%, for new medical equipment. Annual payments of approximately \$392,465 are due on May 1 of each year through 2023. At December 31, 2018, the equipment totaling \$2,354,789 is reported net of accumulated amortization totaling \$84,099 in the government wide financial statements. Amortization of leased equipment under capital leases is included with depreciation expense.

Long-term debt activities for the year ended December 31, 2018 were as follows:

	Balance January 1, 2018			Balance December 31, 2018		Current Portion
		Increase	Decrease			
Notes payable						
De Lage Landen Public Finance	\$ 2,282,952	\$ -	\$ (324,777)	\$ 1,958,175	\$ 353,641	
Government Capital	-	7,000,000	(189,743)	6,810,257	369,063	
Capital lease payable						
Stryker	-	2,354,789	(392,465)	1,962,324	392,465	
Total notes payable	\$ 2,282,952	\$ 9,354,789	\$ (906,985)	\$ 10,730,756	\$ 1,115,169	

Future annual payments for the District’s long-term debt are as follows:

<i>Years ending December 31,</i>	Notes Payable		Capital Lease		Total
	Principal	Interest	Principal		
2019	\$ 722,704	\$ 321,432	\$ 392,465	\$ 1,436,601	
2020	753,589	290,545	392,465	1,436,599	
2021	785,844	258,292	392,465	1,436,601	
2022	819,528	224,608	392,465	1,436,601	
2023	854,798	189,430	392,464	1,436,692	
2024 & thereafter	4,831,969	876,206	-	5,708,175	
Total future payments	\$ 8,768,432	\$ 2,160,513	\$ 1,962,324	\$ 12,891,269	

Harris County Emergency Services District #1 Notes to Financial Statements

NOTE 10: PROPERTY TAX

The District's property tax is levied each October 1st 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, 2018. The Harris County Tax Assessor and Collector is the collecting agency and remits collections to the District, net of a collection fee.

For the 2018 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an adjusted assessment of \$16,228,687 on the assessment valuation of approximately \$16,228,687,000. As of December 31, 2018, \$4,892,784 of the 2018 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 2018 assessment has been fully deferred to 2019.

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

NOTE 11: TRANSACTION WITH HARRIS COUNTY EMERGENCY CORPS

Under the terms of the Ambulance and Emergency Service Agreement, during the year ended December 31, 2018, the District recorded program expenses totaling \$11,692,518 consisting of payment to HCEC for services provided, of which \$1,080,662 is due to HCEC as of December 31, 2018, 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 which expired September 30, 2017. The District and HCEC continue to operate this lease on a month-to-month basis. During 2018, the District received rental income for the property and capital assets totaling \$630,636, respectively (Note 12).

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 2018, there were no collected receivables donated to HCEC.

Commissioners are reimbursed a maximum of \$7,200 annually for their service. Reimbursements totaled \$27,842 for the year ended December 31, 2018, and are included in general and administrative expenses on the accompanying financial statements.

Harris County Emergency Services District #1 Notes to Financial Statements

NOTE 12: 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 8. Minimum lease payments due to the District under through 2019 total \$273,318.

Rental income for the property and equipment totaled \$630,636 for the year ended December 31, 2018.

NOTE 13: COMMITMENTS - CONSTRUCTION

During 2017, the District entered into a professional services agreement with an architect for the construction of two new EMS stations within the District. The agreement totaled \$313,054 of which \$40,698 remains under the agreement at December 31, 2018. During 2018, the District entered into a construction agreement with a contractor for the construction of two new EMS stations within the District. The agreement totals \$6,178,460 of which \$4,810,950 remains under the agreement at December 31, 2018. In addition, a contract for construction management services totaling \$389,725 was also entered into during 2018 for this project. At December 31, 2018 \$274,611 remains under this agreement.



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, 2018</i>	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Property taxes revenue, net	\$ 15,200,000	\$ 15,416,393	\$ 216,393
Lease revenues	630,636	630,636	-
Property taxes penalties and interest	175,000	203,231	28,231
Interest income	19,000	117,312	98,312
Contributions	7,200	8,808	1,608
Loan proceeds	-	9,354,789	9,354,789
Other income	1,000	89,542	88,542
Total available revenues	16,032,836	25,820,711	9,787,875
Expenditures			
Program expense	14,760,000	11,692,518	3,067,482
Collection fees	40,000	94,168	(54,168)
Professional fees	130,000	302,364	(172,364)
Appraisal fees	120,000	118,165	1,835
General and administrative expenses	95,750	76,518	19,232
Capital outlay	2,080,000	5,486,953	(3,406,953)
Debt service			
Principal payments	-	906,985	(906,985)
Loan costs	-	79,000	(79,000)
Interest expense	207,053	203,876	3,177
Total expenditures	17,432,803	18,960,547	(1,527,744)
Excess of revenues over expenditures	\$ (1,399,967)	\$ 6,860,164	\$ 8,260,131

See independent auditors' report.