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**Harris County Emergency
Services District #1**

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

December 31, 2015



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Harris County Emergency Services District #1

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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, 2015, 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, 2015, 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 21 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.

Houston, Texas

April XX, 2016

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**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, 2015. It includes comparative data for the year ended December 31, 2014 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 2015:

- 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 \$9,698,000 in connection with this agreement for services provided in 2015.
- 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 that represent a total increased tax value of over \$107,000,000 compared to their prior value in 2014.
- Under the Ambulance and Emergency Service Agreement, the District is agrees to purchase at least two new ambulance annually. During 2015, the District purchased three new ambulances totaling \$335,000.

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.

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>	2015	2014	Increase (Decrease)
Assets:			
Cash and cash equivalents	\$ 4,319,000	\$ 3,585,000	\$ 734,000
Property taxes receivable, net	12,410,000	9,304,000	3,106,000
Patient services receivable, net	121,000	137,000	(16,000)
Other receivable	17,000	-	17,000
Prepaid expenses	80,000	64,000	16,000
Capital Assets, net	6,494,000	6,436,000	58,000
Other assets	800,000	800,000	-
Total assets	24,241,000	20,326,000	3,915,000
Liabilities:			
Accounts payable	911,000	713,000	198,000
Interest payable	16,000	17,000	(1,000)
Deferred gain from terminated lease	72,000	113,000	(41,000)
Notes payable - due within one year	362,000	344,000	18,000
Notes payable - due in more than one year	2,929,000	3,291,000	(362,000)
Total liabilities	4,290,000	4,478,000	(188,000)
Deferred inflows of resources			
Deferred property tax revenue	14,010,000	12,160,000	1,850,000
Net position			
Invested in capital assets, net of related debt	3,203,000	2,801,000	402,000
Unrestricted	2,737,000	887,000	1,850,000
Total net position	\$ 5,940,000	\$ 3,688,000	\$ 2,252,000

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**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 surplus of \$2.25 million in 2015. The District's cash is held in demand and money market funds. The District collected approximately \$16,000 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 2015, the District's major fixed assets purchased consisted of three new ambulances totaling \$335,000, a new vehicle totaling \$54,000 and a chest compression system totaling \$146,000. Depreciation expense totaled \$694,000 for the year.

At December 31, 2015, the District owed HCEC \$759,000 for ambulances services. At December 31, 2015 the District owed \$146,000 for the new chest compression system causing an increase in accounts payable. During 2015 the District paid down the note payable by \$344,000 leaving an outstanding balance of \$3,291,000 at December 31, 2015.

Deferred property tax revenue increased by \$1.85 million 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 2015 and 2014 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 2015 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>Years ended December 31,</i>	2015	2014	Increase (Decrease)
Revenues:			
Property taxes, net	\$ 12,407,000	\$ 10,958,000	\$ 1,449,000
Lease revenue	631,000	624,000	7,000
Other general revenues	125,000	52,000	73,000
Contributions	5,000	8,000	(3,000)
Total revenues	13,168,000	11,642,000	1,526,000
Expenditures:			
Program	10,742,000	10,831,000	(89,000)
Interest	174,000	191,000	(17,000)
Total expenditures	10,916,000	11,022,000	(106,000)
Change in net position	2,252,000	620,000	1,632,000
Net position, beginning of year	3,688,000	3,068,000	620,000
Net position, end of year	\$ 5,940,000	\$ 3,688,000	\$ 2,252,000

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

In 2015, property tax revenue increased \$1.5 million compared to 2014, due to the additional annexed areas and increase in property valuations. During 2015 the District continued to leased buildings and ambulances to HCEC under the amended master leasing agreement expiring December 31, 2018. At the end of 2015, the District auction off approximately \$990,000 of fully depreciated assets originally purchased in 2007 and 2008 and received \$84,000.

There was a slight decrease in overall expenditure over 2014. 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 \$2 million, which is approximately \$1.87 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>	2015	2014
Capital assets		
Land	\$ 694,000	\$ 694,000
Buildings and improvements	7,486,000	7,486,000
Ambulances and other vehicles	2,429,000	2,872,000
Furniture, fixtures and equipment	2,015,000	1,807,000
Total gross capital assets	12,624,000	12,859,000
Less accumulated depreciation	(6,130,000)	(6,423,000)
Total net capital assets	\$ 6,494,000	\$ 6,436,000

Capital assets increased slightly during 2015, as a result of purchasing new vehicles and accessories for \$545,000 and new equipment of \$210,000 offset by depreciation expenses of \$694,000.

Long-term Debt

<i>December 31,</i>	2015	2014
Debt		
Wells Fargo Bank, N.A.	\$ 290,000	\$ 314,000
De Lage Landen Public Finance	3,001,000	3,321,000
Total Debt	\$ 3,291,000	\$ 3,635,000

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Long-term note payables for 2015 decreased when compared to 2014 as a result of the District continuing to make scheduled payments. No additional debt was issued by the District during 2015.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

- During 2016, the board has approved The District's plans to demolish one of its former administration buildings as the building has been found to be in disrepair.
- The City of Houston is currently exploring the option and plans of the annexation of a parcel in which The District is currently the service provider. If the annexation is approved it will occur in 2016.

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.

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

<i>December 31, 2015</i>	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 4,318,564	\$ -	\$ 4,318,564
Patient services receivable, net	120,646	-	120,646
Property taxes receivable, net	12,410,308	-	12,410,308
Other receivables	17,126	-	17,126
Prepaid expenses	79,695	-	79,695
Capital assets, net	-	6,493,886	6,493,886
Other assets	-	800,000	800,000
Total assets	\$ 16,946,339	\$ 7,293,886	\$ 24,240,225
Liabilities			
Accounts payable	\$ 911,966	\$ -	\$ 911,966
Interest payable	-	15,558	15,558
Deferred gain from terminated lease	-	71,696	71,696
Loan payable - due in one year	-	361,973	361,973
Loan payable - due in more than one year	-	2,928,730	2,928,730
Total liabilities	911,966	3,377,957	4,289,923
Deferred inflows of resources			
Deferred property tax revenue	14,010,070	-	14,010,070
Fund balance			
Invested in capital assets, net of related debt	-	3,203,183	3,203,183
Unrestricted	2,024,303	712,746	2,737,049
Total fund balance	2,024,303	3,915,929	5,940,232
Total liabilities, deferred inflows of resources, and fund balance	\$ 16,946,339		
Net position - unrestricted		\$ 5,940,232	\$ 5,940,232

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

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

Total fund balance of governmental fund	\$ 2,024,303
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 government 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	11,930,561
Less accumulated depreciation	(6,130,479)
Gains incurred from a terminated lease and related capital assets would not be reported, nor would a deferred gain	(71,696)
Loan payable and interest payable are not due and payable in the current period and therefore not reported in the general fund	(3,306,261)
<u>Net position of governmental activities</u>	<u>\$ 5,940,232</u>

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

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

<i>For the year ended December 31, 2015</i>	General Fund	Adjustments	Statement of Activities
Revenues			
Property taxes revenue, net	\$ 12,240,710	\$ -	\$ 12,240,710
Property taxes penalties and interest	165,833	-	165,833
Lease revenues	630,636	-	630,636
Gain on disposal of capital assets	85,733	37,320	123,053
Interest income	1,935	-	1,935
Contributions	5,371	-	5,371
Total revenues	13,130,218	37,320	13,167,538
Expenditures			
Current:			
Program expense	9,698,293	-	9,698,293
Depreciation	-	693,939	693,939
Contributions	8,558	-	8,558
Collection fees	45,368	-	45,368
Professional fees	126,113	-	126,113
Appraisal fees	123,586	-	123,586
General and administrative expenses	45,743	-	45,743
Capital outlay	755,536	(755,536)	-
Debt service:			
Principal payment	344,337	(344,337)	-
Interest expense	175,242	(1,320)	173,922
Total expenditures	11,322,776	(407,254)	10,915,522
Excess of revenues over expenditures	1,807,442	(1,807,442)	-
Change in net position	-	2,252,016	2,252,016
Fund balance/net position:			
Beginning of year	216,861	3,471,355	3,688,216
End of year	\$ 2,024,303	\$ 3,915,929	\$ 5,940,232

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

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

Net change in fund balance of governmental fund \$ 1,807,442

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	755,536
Depreciation expense	(693,939)
Loss on disposal of assets	(3,649)

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 344,337

Some expenses reported in the statement of activities do not require the use of current financial resources not reported as expenditures in governmental funds 1,320

Change in net position of governmental activities \$ 2,252,016

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. Expenses are recorded when liabilities are incurred.

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.

DRAFT 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 assessment 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.

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**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.

DRAFT 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, 2015 totaled \$4,318,564 and the bank balance totaled \$4,321,388. At December 31, 2015, interest bearing deposits were covered by \$4,284,297 collateral pledged in the District's name in addition to FDIC insurance. The entire balance of the demand deposits is collateralized or covered under FDIC insurance.

NOTE 4: ACCOUNTS RECEIVABLE

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

<i>December 31,</i>	2015
Patient services receivable	\$ 64,081,773
Less allowance for doubtful accounts	(63,961,127)
Patient services receivable, net	\$ 120,646
Property taxes receivable	\$ 13,173,206
Less allowance for doubtful accounts	(762,898)
Property taxes receivable, net	\$ 12,410,308

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.

DRAFT**Harris County Emergency Services District #1
Notes to Financial Statements****NOTE 6: CAPITAL ASSETS**

Capital assets activities for the year were as follows:

<i>December 31,</i>	2014	Increase	Decrease	2015
Not depreciated				
Land	\$ 693,804	\$ -	\$ -	\$ 693,804
Other capital assets				
Buildings and improvements	7,486,148	-	-	7,486,148
Ambulances and other vehicles	2,872,235	545,324	(988,768)	2,428,791
Furniture and equipment	1,806,910	210,212	(1,500)	2,015,622
Total depreciated	12,165,293	755,536	(990,268)	11,930,561
Less accumulated depreciation				
Buildings and improvements	(2,707,369)	(374,379)	-	(3,081,748)
Ambulances and other vehicles	(1,960,391)	(273,549)	986,619	(1,247,321)
Furniture and equipment	(1,755,400)	(46,010)	-	(1,801,410)
Total accumulated depreciation	(6,423,160)	(693,938)	986,619	(6,130,479)
Net capital assets subject to depreciation	5,742,133	61,598	(3,649)	5,800,082
Government Activities - capital assets, net	\$ 6,435,937	\$ 61,598	\$ (3,649)	\$ 6,493,886

Depreciation expense for the year ended December 31, 2015 totaled \$ 693,939.

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, 2015, the balance on this note was \$289,459. The note is secured by the land purchased.

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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, 2015 was \$3,001,244.

Notes payable activities for the year ended December 31, 2015 were as follows:

	Balance January 1, 2015	Increase	Decrease	Balance December 31, 2015	Current Portion
Wells Fargo note payable	\$ 313,989	\$ -	\$ 24,530	\$ 289,459	\$ 25,848
De Lage Landen Public Finance note payable	3,321,051	-	319,807	3,001,244	336,125
Total notes payable	\$ 3,635,040	\$ -	\$ 344,337	\$ 3,290,703	\$ 361,973

Future annual principal payments are as follows:

<i>Years ending December 31,</i>	Principal	Interest	Total
2016	\$ 361,973	\$ 157,603	\$ 519,576
2017	380,513	139,064	519,577
2018	382,372	119,758	502,130
2019	561,312	100,796	662,108
2020	371,684	71,590	443,274
2021 - 2023	1,232,849	97,065	1,329,914
Total future payments	\$ 3,290,703	\$ 685,876	\$ 3,976,579

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

NOTE 8: 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, 2015. The Harris County Tax Assessor and Collector is the collecting agency and remits collections to the District, net of a collection fee.

For the 2015 tax year, the District levied an assessment of \$0.10 per \$100 of assessed valuation, resulting in an original assessment of \$14,010,070 on the assessment valuation of approximately \$14,010,070,000. As of December 31, 2015, \$2,831,762 of the 2015 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 2015 assessment has been fully deferred to 2016.

The \$762,898 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 \$112,666 to be amortized in connection with the new operating lease. During 2015, a gain on disposal of capital assets totaled \$40,970.

NOTE 10: TRANSACTION WITH HARRIS COUNTY EMERGENCY CORPS

Under the terms of the Ambulance and Emergency Service Agreement, during the year ended December 31, 2015, the District recorded program expenses totaling \$9,698,293 consisting of payment to HCEC for services provided, of which \$759,650 is due to HCEC as of December 31, 2015, 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 2015, the District received rental income for the property and capital assets totaling \$630,636, respectively (Note 11).

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**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 2015, the District donated collected receivables to HCEC totaling \$8,558.

Commissioners are reimbursed a maximum of \$3,000 annually for their service. Reimbursements totaled \$9,650 for the year ended December 31, 2015, 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:

Year ending December 31,

2016	\$ 630,636
2017	609,636
2018	546,636
2019	273,318

Total minimum lease payments	<u>\$ 2,060,226</u>
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Rental income for the property and equipment totaled \$630,636 for the year ended December 31, 2015.

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REQUIRED SUPPLEMENTARY INFORMATION

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

<i>Year ended December 31, 2015</i>	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Property taxes revenue, net	\$ 11,900,000	\$ 12,240,710	\$ 340,710
Lease revenues	630,636	630,636	-
Penalties and interest	150,000	165,833	15,833
Interest income	2,400	1,935	(465)
Contributions	40,000	5,371	(34,629)
Other income	10,000	85,733	75,733
Total available revenues	12,733,036	13,130,218	397,182
Expenditures			
Program expense	11,568,000	9,698,293	1,869,707
Contributions	8,000	8,558	(558)
Collection fees	48,000	45,368	2,632
Professional fees	128,200	126,113	2,087
Appraisal fees	85,000	123,586	(38,586)
General and administrative expenses	69,450	45,743	23,707
Capital outlay	300,000	755,536	(455,536)
Debt service			
Principal reduction	343,807	344,337	(530)
Interest	175,000	175,242	(242)
Total expenditures	12,725,457	11,322,776	1,402,681
Excess (deficiency) of revenues over expenditures	\$ 7,579	\$ 1,807,442	\$ 1,799,863

See independent auditor's report.