



**Harris County Emergency Services District #1**

**FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**December 31, 2020**



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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, 2020, 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## 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, 2020, 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 9 and the budget to actual comparison for the major fund on page 24 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 20, 2021

## **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, 2020. It includes comparative data for the year ended December 31, 2019 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 2020:

- 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 \$15,520,000 in connection with this agreement for services provided in 2020.
- The District tax rate was set at \$0.09721 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 new 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 2019, the District did not purchase any new ambulances. In 2020, five new ambulances were purchased to accommodate the increased vehicle need due to the addition of three medic units combined with no new purchases in 2019. These fleet additions were approved in July 2020 not to exceed \$1.6 million.
- The District continued construction on Station 97 and was substantially complete at year end. Finalization and move in is anticipated for the 1<sup>st</sup> quarter of 2021.
- The District completed construction on Stations 92 and 94. Construction and related costs for these stations totaled approximately \$6.6 million.

### **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>	<b>2020</b>	<b>2019</b>	<b>Increase (Decrease)</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 8,243,000	\$ 250,000	\$ 7,993,000
Investments	693,000	13,402,000	(12,709,000)
Property taxes receivable, net	18,172,000	15,431,000	2,741,000
Patient services receivable, net	24,000	88,000	(64,000)
Prepaid expenses and other receivables	212,000	57,000	155,000
Capital assets, net	17,916,000	15,592,000	2,324,000
Other assets	800,000	800,000	-
<b>Total assets</b>	<b>46,060,000</b>	<b>45,620,000</b>	<b>440,000</b>

(Continued)

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

### OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

<i>December 31,</i>	<b>2020</b>	<b>2019</b>	<b>Increase (Decrease)</b>
<b>Liabilities:</b>			
Accounts payable	\$ 1,703,000	\$ 1,961,000	\$ (258,000)
Retainage payable	87,000	290,000	(203,000)
Interest payable	11,000	28,000	(17,000)
Long-term debt - due within one year	1,228,000	1,146,000	82,000
Long-term debt - due in more than one year	7,214,000	8,470,000	(1,256,000)
<b>Total liabilities</b>	<b>10,243,000</b>	11,895,000	(1,652,000)
<b>Deferred inflows of resources</b>			
Deferred property tax revenue	19,048,000	17,879,000	1,169,000
<b>Net position</b>			
Net investment in capital assets	9,474,000	6,488,000	2,986,000
Restricted	971,000	-	971,000
Unrestricted	6,324,000	9,358,000	(3,034,000)
<b>Total net position</b>	<b>\$ 16,769,000</b>	\$ 15,846,000	\$ 923,000

The District's cash and cash equivalents is held in demand and money market funds. During 2020, the District's Board of Commissioners approved transferring excess funds held from its public funds investment pool to its money market account to earn a better rate of return. The net decrease in cash, cash equivalents, and investments is due to the construction of new EMS facilities. The District's balance of patient service receivable is from activity related to the ambulance services performed prior to June 30, 2011. Collections remain slow on patient receivables. The increase in property tax receivables is driven by increased valuations of properties and timing of remittance of payments to the District.

During 2020, the District's fixed asset activity consisted of the continued construction of three new EMS facilities totaling \$2,224,728, ambulances and vehicles totaling \$1,180,514, and various equipment totaling \$346,893 with a grand total of additions in the amount of \$3,752,135. This increase was offset by annual depreciation expense totaling \$1,422,881 for the year.

At December 31, 2020, the District owed HCEC \$1,333,757 primarily for ambulances services as compared to \$1,646,992 at December 31, 2019. During 2020, the District paid down total debts by \$1,173,543, leaving an outstanding balance of \$8,442,043 at December 31, 2020. See the long-term debt section for more information.

Deferred property tax revenue increased by approximately \$1.17 million due to increased valuations of properties in North Harris County by the Harris County Tax Assessor's office. The District's tax rate decreased to \$0.09721 per \$100 in 2020 from \$0.10 per \$100 rate in 2019 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)

Unrestricted net position represents that which can be used to finance day-to-day operations without the constraints established by debt covenants, enabling legislation, or other legal requirements. At December 31, 2020, the District had an unrestricted net position of \$6,324,188. The District's restricted net position totaling \$970,955 is the required debt service for the next 12 months for loans in which future Ad Valorem taxes serve as collateral.

#### 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>2020</b>	<b>2019</b>	<b>Increase (Decrease)</b>
<b>Revenues:</b>			
Property taxes, net	\$ 18,084,000	\$ 16,947,000	\$ 1,137,000
Lease revenue	631,000	631,000	-
Other general revenues	129,000	436,000	(307,000)
Contributions	5,000	5,000	-
<b>Total revenues</b>	<b>18,849,000</b>	<b>18,019,000</b>	<b>830,000</b>
<b>Expenditures:</b>			
Program	17,716,000	15,997,000	1,719,000
Interest	210,000	320,000	(110,000)
<b>Total expenditures</b>	<b>17,926,000</b>	<b>16,317,000</b>	<b>1,609,000</b>
<b>Change in net position</b>	<b>923,000</b>	<b>1,702,000</b>	<b>(779,000)</b>
<b>Net position, beginning of year</b>	<b>15,846,000</b>	<b>14,144,000</b>	<b>1,702,000</b>
<b>Net position, end of year</b>	<b>\$ 16,769,000</b>	<b>\$ 15,846,000</b>	<b>\$ 923,000</b>

In 2020, property tax revenue increased approximately \$1.1 million compared to 2019, due to the increase in property valuations. During 2020 the District continued to lease buildings and ambulances to HCEC under a master leasing agreement. In April 2019, a new lease agreement was executed with terms expiring through December 31, 2024. Other general revenues includes interest income from the District's investments in a public funds investment pool and totaled approximately \$113,000 and \$409,000 for the years ended December 31, 2020 and 2019, respectively.

The District's major expenditures continue to be payments to HCEC for emergency medical services, which increased approximately \$1.3 million over 2020 and totaled approximately \$15.5 million and depreciation expense which totaled approximately \$1.4 million for the year ended December 31, 2020.



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

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

Governmental Funds

At the end of the current fiscal year, the District's governmental fund (general fund) reported an ending fund position of approximately \$5.7 million, which is approximately \$2.9 million less than the prior fiscal year. This decrease is due to the District funding the ongoing construction of the new stations during 2020. The balance of these funds are considered restricted for debt service (approximately \$971,000) with all of the remaining assets in the general fund being available resources to be used at the District's discretion.

Capital Assets

<i>December 31,</i>	<b>2020</b>	<b>2019</b>
<b>Capital assets</b>		
Land	\$ 1,579,000	\$ 1,579,000
Construction in progress	1,917,000	7,495,000
Buildings and improvements	14,156,000	7,486,000
Ambulances and other vehicles	4,197,000	3,051,000
Furniture, fixtures and equipment	6,161,000	4,691,000
<b>Total gross capital assets</b>	<b>28,010,000</b>	24,302,000
<b>Less accumulated depreciation</b>	<b>(10,094,000)</b>	(8,710,000)
<b>Total net capital assets</b>	<b>\$ 17,916,000</b>	<b>\$ 15,592,000</b>

Capital assets, net increased during 2020 as a result of continuing construction in progress for three new EMS facilities for approximately \$2,225,000, ambulances and vehicles totaling \$1,180,000, and various equipment totaling \$347,000, offset by depreciation expense of approximately \$1,423,000.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

Long-term Debt

<i>December 31,</i>	<b>2020</b>	<b>2019</b>
<b>Debt</b>		
De Lage Landen Public Finance note payable	\$ 1,233,000	\$ 1,605,000
Government Capital note payable	-	6,441,000
Chase Bank note payable	<b>6,032,000</b>	-
Stryker Finance capital lease	<b>1,177,000</b>	1,570,000
	<b>\$ 8,442,000</b>	<b>\$ 9,616,000</b>

The District’s debt relates to the construction of three new EMS facilities and equipment financing. During 2020, the District refinanced its note payable to Government Capital with Chase Bank. The principal amount refinanced totaled \$6,251,875. The District expects to achieve approximately \$877,000 in interest savings with the refinancing of the debt over the next 13 years.

The District continued to make scheduled payments in accordance with the debt agreements. During 2020, the District made principal payments totaling \$1,173,543 and interest payments totaling \$226,464.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The District budgets conservatively. Revenues are budgeted based on historic trends and the adopted levy. General Fund revenues were lower than budget as interest earnings were less than budgeted. Expenditures were lower than budget by \$236,000 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 principal payments made on long-term debt agreements previously discussed in the Long Term Debt section. The amount of capital outlay for asset additions was also higher than budgeted. 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. 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. During 2018, construction began on the \$6.2 million project of both stations 92 and 94 with an initial projected completion date of May 2019. Due to delays in the projects during 2019, the project wasn’t completed until May 2020. The total final project cost was \$6.6 million.

In 2019 the Board approved an architect firm to design and a construction contractor to construct station 97. Construction of the \$1.8 million station began at the end of 2019. At December 2020 the station was 98% complete with a projected completion of January 2021.

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

**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, 2020</i>	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and cash equivalents	\$ 7,272,423	\$ -	\$ 7,272,423
Cash and cash equivalents - restricted for debt service	970,955	-	970,955
Investments	693,489	-	693,489
Property taxes receivable, net	18,172,173	-	18,172,173
Patient services receivable, net	23,624	-	23,624
Other receivables	17,138	-	17,138
Prepaid expenses	194,811	-	194,811
Capital assets, net	-	17,915,785	17,915,785
Other assets	-	800,000	800,000
<b>Total assets</b>	<b>\$ 27,344,613</b>	<b>\$ 18,715,785</b>	<b>\$ 46,060,398</b>
<b>Liabilities</b>			
Accounts payable	\$ 1,702,666	\$ -	1,702,666
Retainage payable	-	87,783	87,783
Interest payable	-	10,904	10,904
Long-term debt - due in one year	-	1,227,900	1,227,900
Long-term debt - due in more than one year	-	7,214,143	7,214,143
<b>Total liabilities</b>	<b>1,702,666</b>	<b>8,540,730</b>	<b>10,243,396</b>
<b>Deferred inflows of resources</b>			
Deferred property tax revenue	19,904,130	(856,013)	19,048,117
<b>Fund balance</b>			
Restricted	970,955	(970,955)	
Unassigned	4,766,862	(4,766,862)	
<b>Total fund balance</b>	<b>5,737,817</b>	<b>(5,737,817)</b>	
Total liabilities, deferred inflows of resources, and fund balance	<b>\$ 27,344,613</b>		
<b>Net Position</b>			
Net investment in capital assets		9,473,742	9,473,742
Restricted for debt service		970,955	970,955
Unrestricted		6,324,188	6,324,188
<b>Total net position</b>		<b>\$ 16,768,885</b>	<b>\$ 16,768,885</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	\$ 5,737,817
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>The communication center license used in governmental activities is not a financial resource and therefore is not reported in governmental fund</p>	800,000
<p>Capital assets used in governmental activities are not resources and therefore are not reported in governmental funds</p>	
<p>Capital assets not being depreciated - land</p>	1,578,902
<p>Capital assets not being depreciated - construction in progress</p>	1,917,039
<p>Capital assets being depreciated - buildings and improvements, vehicles, and equipment</p>	24,513,433
<p>Less accumulated depreciation</p>	(10,093,589)
<p>Other long-term assets are available to pay for current period expenditures and are current inflows of resources in the funds.</p>	
	856,013
<p>Certain liabilities are not due and payable in the current period and therefore are not reported in the funds</p>	
	(87,783)
<p>Debt payable and interest payable are not due and payable in the current period and therefore not reported in the general fund</p>	
	(8,452,947)
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Net position of governmental activities	\$ 16,768,885
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*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, 2020</i>	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Property taxes revenue, net	\$ 17,792,012	\$ 107,003	\$ 17,899,015
Lease revenues	630,636	-	630,636
Property taxes penalties and interest	184,585	-	184,585
Other income	21,247	(5,264)	15,983
Interest income	113,728	-	113,728
Contributions	4,659	-	4,659
<b>Total revenues</b>	<b>18,746,867</b>	<b>101,739</b>	<b>18,848,606</b>
<b>Expenditures</b>			
Current:			
Program expense	15,517,989	-	15,517,989
Depreciation	-	1,422,881	1,422,881
Collection fees	49,913	-	49,913
Professional fees	313,125	-	313,125
Appraisal fees	136,195	-	136,195
General and administrative expenses	202,378	-	202,378
Capital outlay	3,954,972	(3,954,972)	-
Debt service:			
Principal payment	1,173,543	(1,173,543)	-
Loan costs	74,000	-	74,000
Interest expense	226,464	(16,874)	209,590
<b>Total expenditures</b>	<b>21,648,579</b>	<b>(3,722,508)</b>	<b>17,926,071</b>
Excess (deficiency) of revenues over expenditures	(2,901,712)	2,901,712	
<b>Other financing sources (uses)</b>			
Issuance of note payable	6,251,875	(6,251,875)	
Other financing use - debt service - principal	(6,251,875)	6,251,875	
Excess (deficiency) of revenues and othr financing sources (uses) over expenditures	(2,901,712)	2,901,712	
<b>Change in net position</b>		<b>922,535</b>	<b>922,535</b>
<b>Fund balance/net position:</b>			
<b>Beginning of year</b>	<b>8,639,529</b>	<b>7,206,821</b>	<b>15,846,350</b>
<b>End of year</b>	<b>\$ 5,737,817</b>	<b>\$ 11,031,068</b>	<b>\$ 16,768,885</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	\$ (2,901,712)
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	3,752,135
Depreciation expense	(1,422,881)
Loss on disposal of capital assets	(5,264)
Repayment of loan principal is an expenditure in the governmental fund, but the repayment reduces loans payable in the statement of net position	1,173,543
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	219,711
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	107,003
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<b>Change in net position of governmental activities</b>	<b>\$ 922,535</b>
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*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 the 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.

Restricted – This component of net position consist of that on which constraints have been placed through external constraints imposed by creditors, grantors, contributors, or laws and regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.



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

### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

#### **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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

#### **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 debt service payments for the next twelve months.

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

### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

#### ***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.

Effective April 1, 2019, the District and HCEC entered into a new agreement at substantially the same terms expiring December 31, 2024.

#### ***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.

# Harris County Emergency Services District #1

## Notes to Financial Statements

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

#### *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.

#### *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, 2020 totaled \$8,243,378 and the bank balance totaled \$8,243,378. At December 31, 2020, interest bearing deposits were covered by collateral pledged in the District's name in addition to \$250,000 FDIC insurance.

### Note 4: RESTRICTED CASH AND CASH EQUIVALENTS

Certain amounts of cash and cash equivalents are restricted by a loan agreement. The debt agreement requires the next twelve months of debt service be set aside for all debt in which future Ad Valorem taxes serve as collateral and totaled \$970,955 as of December 31, 2020.

### Note 5: 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.

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

### Note 6: 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.

The District's investment in the Texas CLASS local government investment pool is rated AAAM by Standard & Poor's 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 Texas CLASS and the amortized costs of the pool shares at December 31, 2020.

### Note 7: ACCOUNTS RECEIVABLE

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

<i>December 31,</i>	2020
Patient services receivable	\$ 63,984,751
Less allowance for doubtful accounts	(63,961,127)
<u>Patient services receivable, net</u>	<u>\$ 23,624</u>
Property taxes receivable	\$ 19,075,193
Less allowance for doubtful accounts	(903,020)
<u>Property taxes receivable, net</u>	<u>\$ 18,172,173</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 11).

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

### Note 8: 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 12) 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.

### Note 9: CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2020 were as follows:

<i>December 31,</i>	Balance January 1, 2020	Increases	Decreases	Balance December 31, 2020
Not depreciated				
Land	\$ 1,578,902	\$ -	\$ -	\$ 1,578,902
Construction in progress	7,495,444	2,173,197	(7,751,602)	1,917,039
Other capital assets				
Buildings and improvements	7,485,667	51,531	6,618,376	14,155,574
Ambulances and other vehicles	3,051,011	1,180,514	(34,375)	4,197,150
Furniture and equipment	4,690,638	346,893	1,123,178	6,160,709
Total depreciated	15,227,316	1,578,938	7,707,179	24,513,433
Less accumulated depreciation				
Buildings and improvements	(4,361,859)	(562,528)	-	(4,924,387)
Ambulances and other vehicles	(2,582,436)	(132,666)	34,375	(2,680,727)
Furniture and equipment	(1,765,572)	(727,687)	4,784	(2,488,475)
Total accumulated depreciation	(8,709,867)	(1,422,881)	39,159	(10,093,589)
Net capital assets subject to depreciation	6,517,449	156,057	7,746,338	14,419,844
Government Activities - capital assets, net	\$ 15,591,795	\$ 2,329,254	\$ (5,264)	\$ 17,915,785

Depreciation expense for the year ended December 31, 2020 totaled \$1,422,881.

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

### Note 10: 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, 2020 was \$1,232,850.

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, 2020, the equipment totaling \$2,354,789 is reported net of accumulated amortization totaling \$756,896 in the government wide financial statements. Amortization of leased equipment under capital leases is included with depreciation expense.

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 EMS facilities. 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 2020, the District refinanced the Government Capital note payable with Chase Bank for \$6,251,875, with an interest rate of 1.40%. The District expects to achieve approximately \$877,000 in interest savings with the refinancing of the debt over the next 13 years. Semi-annual payments, including interest, of \$263,840 are due on May 15 and November 15 of each year through May 2033. The District can make prepayments on the note without penalty subsequent to November 15, 2025. The note is secured by the ad valorem tax revenues.

Long-term debt activities for the year ended December 31, 2020 were as follows:

	Balance January 1, 2020	Increase	Decrease	Balance December 31, 2020	Current Portion
Notes payable					
De Lage Landen Public Finance	\$ 1,604,533	\$ -	\$ (371,683)	\$ 1,232,850	\$ 390,649
Government Capital	6,441,194	-	(6,441,194)	-	-
Chase Bank	-	6,251,875	(220,077)	6,031,798	444,786
Capital lease payable					
Stryker	1,569,859	-	(392,464)	1,177,395	392,465
<b>Total notes payable</b>	<b>\$ 9,615,586</b>	<b>\$ 6,251,875</b>	<b>\$ (7,425,418)</b>	<b>\$ 8,442,043</b>	<b>\$ 1,227,900</b>

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

### Note 10: LONG-TERM DEBT (Continued)

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	
2021	\$ 835,435	\$ 135,520	\$ 392,465	\$ 1,363,420
2022	861,616	109,339	392,465	1,363,420
2023	888,990	82,054	392,465	1,363,509
2024	463,797	63,883	-	527,680
2025	470,313	57,367	-	527,680
2026 - 2030	2,452,552	185,847	-	2,638,399
2031 - 2033	1,291,945	27,257	-	1,319,202
Total future payments	\$ 7,264,648	\$ 661,267	\$ 1,177,395	\$ 7,784,108

### Note 11: 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, 2020. The Harris County Tax Assessor and Collector is the collecting agency and remits collections to the District, net of a collection fee.

For the 2020 tax year, the District levied an assessment of \$0.09721 per \$100 of assessed valuation, resulting in an adjusted assessment of \$19,048,117 on the assessment valuation of approximately \$19,594,812,300. As of December 31, 2020, \$3,738,527 of the 2020 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 2020 assessment has been fully deferred to 2021.

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

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

### Note 12: TRANSACTION WITH HARRIS COUNTY EMERGENCY CORPS

Under the terms of the Ambulance and Emergency Service Agreement, during the year ended December 31, 2020, the District recorded program expenses totaling \$15,517,989 consisting of payment to HCEC for services provided, of which \$1,333,757 is due to HCEC as of December 31, 2020, 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 December 31, 2024. The District also leases ambulances and vehicles under another lease agreement totaling \$7,000 per month and expiring on March 31, 2024. During 2020, the District received rental income for the property and capital assets totaling \$630,636, respectively (Note 13).

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 2020, there were no collected receivables donated to HCEC.

Commissioners are reimbursed a maximum of \$7,200 annually for their service. Reimbursements totaled \$22,900 for the year ended December 31, 2020, and are included in general and administrative expenses on the accompanying financial statements.

### Note 13: OPERATING LEASES

The District leases property and equipment under non-cancellable arrangements to HCEC expiring through December 2024. Property and equipment under leases consist of substantially all capital assets listed in Note 9. Minimum lease payments due to the District under the non-cancellable agreements is as follows:

<i>Year ending December 31,</i>	
2021	\$ 630,626
2022	630,626
2023	630,626
2024	567,624
2025	-
Total minimum lease payments	\$ 2,459,502

Rental income for the property and equipment totaled \$630,636 for the year ended December 31, 2020.



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

### **Note 14: COMMITMENTS - CONSTRUCTION**

During 2018, the District entered into agreements for construction and construction management services for the construction of two new EMS stations within the District. These agreements were completed in 2020 with the completion of the EMS stations. During 2019, the District entered into a professional services agreement for construction management services of a third new EMS station within the District. The agreement totaled \$292,110 of which \$69,702 remains under the agreement at December 31, 2020. In addition, during 2019, the District entered into a construction agreement with a contractor for the construction of the third EMS station which totals \$1,755,650 of which \$87,783 remains under agreement at December 31, 2020.

### **Note 15: UNCERTAINTIES**

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, there may be a significant impact on the operating activities and results of the District. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are uncertain.

### **Note 16: SUBSEQUENT EVENTS**

The District has evaluated subsequent events through the date the financial statements were available to be issued, April 20, 2021 and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

**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, 2020</i>	Original and Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>			
Property taxes revenue, net	\$ 17,734,534	\$ 17,792,012	\$ 57,478
Lease revenues	630,636	630,636	-
Property taxes penalties and interest	200,000	184,585	(15,415)
Interest income	350,000	113,728	(236,272)
Contributions	8,400	4,659	(3,741)
Other income	4,000	21,247	17,247
<b>Total available revenues</b>	<b>18,927,570</b>	<b>18,746,867</b>	<b>(180,703)</b>
<b>Expenditures</b>			
Program expense	17,217,153	15,517,989	1,699,164
Collection fees	90,000	49,913	40,087
Professional fees	342,000	313,125	28,875
Appraisal fees	122,000	136,195	(14,195)
General and administrative expenses	125,080	202,378	(77,298)
Capital outlay	2,550,000	3,954,972	(1,404,972)
Depreciation expense	500,000	-	500,000
Debt service			
Principal payments	-	1,173,543	(1,173,543)
Loan cost	-	74,000	(74,000)
Interest expense	290,545	226,464	64,081
<b>Total expenditures</b>	<b>21,236,778</b>	<b>21,648,579</b>	<b>(411,801)</b>
<b>Excess of revenues over expenditures</b>	<b>\$ (2,309,208)</b>	<b>\$ (2,901,712)</b>	<b>\$ (592,504)</b>