



Harris County Emergency Services District #1

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2023



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INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information for the major fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Carr, Rigg & Ingram, L.L.C.

Houston, Texas

April 24, 2024

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, 2023. It includes comparative data for the year ended December 31, 2022 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 2023:

- 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 \$19,000,000 in connection with this agreement for services provided in 2023.
- The District tax rate was set at \$0.094314 per \$100 for fiscal year 2022 (tax year 2021). The tax rate was set at \$0.09120 per \$100 for fiscal year 2023 (tax year 2022).
- 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. As a result of the prior year increase in fleet, there were no new ambulances purchased in 2023. There was one new supervisor car purchased in 2023 and one additional vehicle was purchased in 2023 for staff fleet.
- The District completed the design phase and started construction on Stations 93 and 96 during fiscal year 2023. Construction and related costs for these stations is expected to total approximately \$7 million. The District's obtained a loan in 2021 to fund the construction. The construction has an anticipated completion date in 2024.

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.

Harris County Emergency Services District #1

Management's Discussion and Analysis

(Unaudited)

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.

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>	2023	2022	Increase (Decrease)
Assets:			
Cash and cash equivalents	\$ 3,204,000	\$ 6,160,000	\$ (2,956,000)
Investments	12,709,000	9,976,000	2,733,000
Property taxes receivable, net	20,418,000	16,233,000	4,185,000
Lease receivable	2,432,000	3,011,000	(579,000)
Prepaid expenses and other receivables	123,000	212,000	(89,000)
Capital assets, net	14,840,000	14,436,000	404,000
Other assets	800,000	800,000	-
Total assets	54,526,000	50,828,000	3,698,000

(Continued)

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

<i>December 31,</i>	2023	2022	Increase (Decrease)
Liabilities:			
Accounts payable	\$ 3,723,000	\$ 1,285,000	\$ 2,438,000
Retainage payable	75,000	-	75,000
Interest payable	19,000	21,000	(2,000)
Long-term debt - due within one year	1,036,000	1,412,000	(376,000)
Long-term debt - due in more than one year	8,528,000	9,564,000	(1,036,000)
Total liabilities	13,381,000	12,282,000	1,099,000
Deferred inflows of resources	25,700,000	24,755,000	945,000
Net position			
Net investment in capital assets	8,329,000	8,908,000	(579,000)
Restricted	1,291,000	1,169,000	122,000
Unrestricted	5,825,000	3,714,000	2,111,000
Total net position	\$ 15,445,000	\$ 13,791,000	\$ 1,654,000

The District's cash and cash equivalents is held in demand and money market funds. During 2022 and 2023, the District's Board of Commissioners approved transferring excess funds held between its public funds investment pool and its money market account to earn a better rate of return. The increase in property tax receivables is driven by the timing of remittance of payments to the District and the increasing appraised value of properties within the District. In addition, the District increased its allowance for doubtful property taxes in 2023 to \$1,803,000 to reflect the increase in the property tax base and increases in delinquent receivables.

During 2023, the District's fixed asset activity included additions of approximately \$2.3 million. This increase was offset by annual depreciation expense totaling \$1,885,000.

At December 31, 2023, the District owed HCEC approximately \$2.7 million primarily for ambulances services as compared to approximately \$1.2 million at December 31, 2022. In addition, at December 31, 2023, liabilities included approximately \$1 million for construction services and retainage payable. During 2023, the District paid down total debts by \$1,411,773, leaving an outstanding balance of \$9,564,942 at December 31, 2023. See the long-term debt section for more information.

Effective January 1, 2022, the District adopted GASB Statement No. 87 resulting in a lease receivable and deferred inflow balance as of December 31, 2022 of approximately \$3,011,000 and \$3,013,000, respectively. Payments were received during 2023 in accordance with the agreements.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Deferred property tax revenue increased by approximately \$945,000 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 \$0.082838 per \$100 in 2023 from \$0.09120 per \$100 rate in 2022 tax levy years. Tax collection is handled by the Harris County Tax Assessor's Office.

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, 2023, the District had an unrestricted net position of \$5,825,351. The District's restricted net position totaling \$1,290,566 is the required debt service (net of accrued interest) 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>	2023	2022	Increase (Decrease)
Revenues:			
Property taxes, net	\$ 21,706,000	\$ 19,370,000	\$ 2,336,000
Lease revenue	654,000	631,000	23,000
Other general revenues	1,215,000	289,000	926,000
Total revenues	23,575,000	20,290,000	3,285,000
Expenditures:			
Program	21,752,000	21,550,000	202,000
Interest	169,000	175,000	(6,000)
Total expenditures	21,921,000	21,725,000	196,000
Change in net position	1,654,000	(1,435,000)	3,089,000
Net position, beginning of year	13,791,000	15,226,000	(1,435,000)
Net position, end of year	\$ 15,445,000	\$ 13,791,000	\$ 1,654,000

In 2023, net property tax revenue increased approximately \$2.4 million compared to 2022, due to the increase in property valuations. During 2023 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, with a renewal option through 2027. Other general revenues includes interest income from the District's investments in money market funds and a public funds investment pool and totaled approximately \$1,080,000 and \$278,000 for the years ended December 31, 2023 and 2022, respectively.

Harris County Emergency Services District #1

Management's Discussion and Analysis

(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District's major expenditures continue to be payments to HCEC for emergency medical services, which increased approximately \$100,000 over 2022 and totaled approximately \$19.1 million and depreciation expense which totaled approximately \$1.9 million for the year ended December 31, 2023.

Governmental Funds

At the end of the current fiscal year, the District's governmental fund (general fund) reported an ending fund position of approximately \$9.1 million, which is approximately the same as the prior fiscal year. A significant portion of these funds are considered restricted for debt service or for capital outlay (approximately \$6.2 million) with all of the remaining assets in the general fund being available resources to be used at the District's discretion.

Capital Assets

The following table reflects the District's capital assets activity (rounded to the nearest thousand):

<i>December 31,</i>	2023	2022
Capital assets		
Land	\$ 1,755,000	\$ 1,579,000
Construction in progress	1,973,000	140,000
Buildings and improvements	16,145,000	16,145,000
Ambulances and other vehicles	3,645,000	3,886,000
Furniture, fixtures and equipment	6,188,000	6,188,000
 Total gross capital assets	 29,706,000	 27,938,000
Less accumulated depreciation	(14,866,000)	(13,502,000)
 Total net capital assets	 \$ 14,840,000	 \$ 14,436,000

Capital assets, net increased during 2023 primarily as a result of construction in progress exceeding annual depreciation expense.

Harris County Emergency Services District #1

Management's Discussion and Analysis

(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Long-term Debt

The following table reflects the District's long-term debt activity (rounded to the nearest thousand):

<i>December 31,</i>	2023	2022
Debt		
Chase Bank note payable	\$ 4,678,000	\$ 5,136,000
Government Capital note payable	4,886,000	5,448,000
Stryker Finance purchase	-	392,000
Total debt	\$ 9,564,000	\$ 10,976,000

The District's debt relates to the construction of three new EMS facilities and equipment financing. During 2023 and 2022, the District did not enter into any new debt.

The District continued to make scheduled payments in accordance with the debt agreements. During 2023, the District made principal payments totaling \$1,411,772 and interest payments totaling \$169,022.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District budgets conservatively. Revenues are budgeted based on historic trends and the adopted levy. General Fund revenues were higher than budget as property tax revenue exceeded budget as did interest income. Overall expenditures in total were in line with the budget. The District's budget was amended during the fiscal year to reflect changes in the property tax base and corresponding program expense for HCEC expected payments.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The District completed design and permitting in fiscal year 2022 on two additional EMS facilities, Stations 93 and 96. Construction began in 2023 and is expected to be completed in 2024.

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, 2023</i>	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 1,895,025	\$ -	\$ 1,895,025
Cash and cash equivalents - restricted for debt service	1,309,448	-	1,309,448
Investments	12,708,588	-	12,708,588
Property taxes receivable, net	20,417,582	-	20,417,582
Other receivables	17,138	-	17,138
Lease receivable	2,432,248	-	2,432,248
Prepaid expenses	106,067	-	106,067
Capital assets, net	-	14,839,912	14,839,912
Other assets	-	800,000	800,000
Total assets	\$ 38,886,096	\$ 15,639,912	\$ 54,526,008
Liabilities			
Accounts payable	\$ 3,722,891	\$ -	3,722,891
Retainage payable	74,769	-	74,769
Interest payable	-	18,882	18,882
Long-term debt - due in one year	-	1,036,127	1,036,127
Long-term debt - due in more than one year	-	8,528,815	8,528,815
Total liabilities	3,797,660	9,583,824	13,381,484
Deferred inflows of resources			
Deferred property tax revenue	23,612,186	(323,160)	23,289,026
Lease revenue	2,410,732	-	2,410,732
Total deferred inflows of resources	26,022,918	(323,160)	25,699,758
Fund balance			
Restricted	6,195,785	(6,195,785)	
Unassigned	2,869,733	(2,869,733)	
Total fund balance	9,065,518	(9,065,518)	
Total liabilities, deferred inflows of resources, and fund balance	\$ 38,886,096		
Net Position			
Net investment in capital assets		8,328,849	8,328,849
Restricted for debt service		1,290,566	1,290,566
Unrestricted		5,825,351	5,825,351
Total net position		\$ 15,444,766	\$ 15,444,766

(Continued)

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	\$ 9,065,518
Amounts reported for governmental activities in the statement of net position are different because:	
The communication center license used in governmental activities is not a financial resource and therefore is not reported in governmental fund	800,000
Capital assets used in governmental activities are not resources and therefore are not reported in governmental funds	
Capital assets not being depreciated - land	1,754,584
Capital assets not being depreciated - construction in progress	1,973,315
Capital assets being depreciated - buildings and improvements, vehicles, and equipment	25,977,704
Less accumulated depreciation	(14,865,691)
Other long-term liabilities are available to pay for current period expenditures and are current inflows of resources in the funds.	323,160
Debt payable and interest payable are not due and payable in the current period and therefore not reported in the general fund	(9,583,824)
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Net position of governmental activities	\$ 15,444,766
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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, 2023</i>	General Fund	Adjustments	Statement of Activities
Revenues			
Property taxes revenue, net	\$ 21,566,132	\$ (78,036)	\$ 21,488,096
Lease revenues	654,169	-	654,169
Property taxes penalties and interest	218,107	-	218,107
Interest income	1,081,175	-	1,081,175
Contributions and other income	132,968	-	132,968
Total revenues	23,652,551	(78,036)	23,574,515
Expenditures			
Current:			
Program expense	19,135,769	-	19,135,769
Depreciation	-	1,884,876	1,884,876
Collection fees	105,855	-	105,855
Professional fees	310,855	-	310,855
Appraisal fees	168,585	-	168,585
General and administrative expenses	145,928	-	145,928
Capital outlay	2,288,492	(2,288,492)	-
Debt service:			
Principal payment	1,411,773	(1,411,773)	-
Interest expense	171,101	(2,079)	169,022
Total expenditures	23,738,358	(1,817,468)	21,920,890
Excess (deficiency) of revenues over expenditures	(85,807)	85,807	
Change in net position		1,653,625	1,653,625
Fund balance/net position:			
Beginning of year	9,151,325	10,639,816	13,791,141
End of year	\$ 9,065,518	\$ 12,379,248	\$ 15,444,766

(Continued)

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	\$ (85,807)
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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	2,288,492
Depreciation expense	(1,884,876)

Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loan principal is an expenditure in the governmental fund, but the repayment reduces loans payable in the statement of net position. This is the amount by which proceeds exceeded repayments (Note 10).

1,411,773

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

2,079

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	(78,036)
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Change in net position of governmental activities	\$ 1,653,625
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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 (i.e. intended to finance).

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 is 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 and proceeds received on long-term debt for capital outlay.

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include the subsequent year's property tax revenue and lease revenue. The deferred inflow for leases is related to the leases receivable and is being amortized to leases revenue in a systematic and rational manner over the term of the lease. 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.

Harris County Emergency Services District #1

Notes to Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Lease contracts that provide HCEC with control of non-financial assets for a period of time in excess of twelve months are reported as a deferred inflow of resources with a related lease receivable in the government-wide financial statements and fund financial statements. The lease receivable is recorded at the present value of the future lease payments. The deferred inflow of resources is recorded for the same amount as the related lease receivable plus any prepayment and incentives paid. The lease receivable is reduced for lease payments made less the interest portion of the lease payment. The lessor recognizes lease revenue calculated as the straight-line amortization of the deferred inflow of resources over the lease term. At December 31, 2023 the balance on the lease receivable and deferred inflow of resources totaled \$2,432,248 and \$2,410,732, respectively.

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.

Budget and Budgetary Accounting

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

Harris County Emergency Services District #1

Notes to Financial Statements

Note 3: DEPOSITS

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

The carrying amount (book balance) of the District's demand deposits with financial institutions as of December 31, 2023 totaled \$3,204,473 and the bank balance totaled \$3,204,473. At December 31, 2023, 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 loan agreements. The debt agreements require the next twelve months of debt service, at 110%, be set aside for all debt in which future Ad Valorem taxes serve as collateral and totaled \$1,309,448 as of December 31, 2023.

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.

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 60 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.

Harris County Emergency Services District #1

Notes to Financial Statements

Note 6: INVESTMENTS (Continued)

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, 2023.

Note 7: ACCOUNTS RECEIVABLE

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

<i>December 31,</i>	2023
Patient services receivable	\$ 63,984,735
Less allowance for doubtful accounts	(63,984,735)
Patient services receivable, net	\$ -
Property taxes receivable	\$ 22,220,602
Less allowance for doubtful accounts	(1,803,020)
Property taxes receivable, net	\$ 20,417,582

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).

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.

Harris County Emergency Services District #1

Notes to Financial Statements

Note 9: CAPITAL ASSETS

Capital assets activities for the year ended December 31, 2023 were as follows:

<i>December 31,</i>	Balance January 1, 2023	Increases	Decreases	Balance December 31, 2023
Not depreciated				
Land	\$ 1,578,902	\$ 175,682	\$ -	\$ 1,754,584
Construction in progress	140,857	1,832,458	-	1,973,315
Other capital assets				
Buildings and improvements	16,144,655	-	-	16,144,655
Ambulances and other vehicles	3,885,518	280,352	(520,915)	3,644,955
Furniture and equipment	6,188,094	-	-	6,188,094
Total depreciated	26,218,267	280,352	(520,915)	25,977,704
Less accumulated depreciation				
Buildings and improvements	(6,461,186)	(777,018)	-	(7,238,204)
Ambulances and other vehicles	(2,931,994)	(348,009)	520,915	(2,759,088)
Furniture and equipment	(4,108,550)	(759,849)	-	(4,868,399)
Total accumulated depreciation	(13,501,730)	(1,884,876)	520,915	(14,865,691)
Net capital assets subject to depreciation	12,716,537	(1,604,524)	-	11,112,013
Government Activities - capital assets, net	\$ 14,436,296	\$ 403,616	\$ -	\$ 14,839,912

Depreciation expense for the year ended December 31, 2023 totaled \$1,884,876.

Note 10: LONG-TERM DEBT

During 2018, the District acquired a finance purchase 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. The note was fully repaid during fiscal year 2023.

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 were due on May 15 and November 15 of each year through 2033. During 2020, the District refinanced the Government Capital note payable with Chase

Harris County Emergency Services District #1

Notes to Financial Statements

Note 10: LONG-TERM DEBT (Continued)

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.

During 2021, the District acquired a note payable with Government Capital Corporation (Government Capital) of \$6,000,000, with an interest rate of 1.85%, for the construction of two EMS facilities. Annual payments, including interest, of \$662,728 are due on November 19 of each year through 2031. The note is secured by the ad valorem tax revenues.

Long-term debt activities for the year ended December 31, 2023 were as follows:

	Balance January 1, 2023	Increase	Decrease	Balance December 31, 2023	Current Portion
Notes payable					
Chase Bank	\$ 5,135,977	\$ -	\$ (457,372)	\$ 4,678,605	\$ 463,797
Government Capital	5,448,273	-	(561,936)	4,886,337	572,330
Finance purchase					
Stryker	392,465	-	(392,465)	-	-
Total notes payable	\$ 10,976,715	\$ -	\$ (1,411,773)	\$ 9,564,942	\$ 1,036,127

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

Years ending December 31,	Notes Payable		Total
	Principal	Interest	
2024	\$ 1,036,127	\$ 154,280	\$ 1,190,407
2025	1,053,232	137,176	1,190,408
2026	1,070,623	119,785	1,190,408
2027	1,088,307	102,101	1,190,408
2028	1,106,288	84,120	1,190,408
2029-2033	4,210,365	152,375	4,362,740
Total future payments	\$ 9,564,942	\$ 749,837	\$ 10,314,779

Harris County Emergency Services District #1

Notes to Financial Statements

Note 11: 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, 2023. The Harris County Tax Assessor and Collector is the collecting agency and remits collections to the District, net of a collection fee.

For the 2023 tax year (fiscal year 2024), the District levied an assessment of \$0.082838 per \$100 of assessed valuation, resulting in an adjusted assessment of \$23,289,026 on the assessment valuation of approximately \$28,113,941,000. As of December 31, 2023, \$8,237,696 of the 2023 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 2023 assessment has been fully deferred to 2024 the fiscal year in which the funds are levied (intended to finance).

The \$1,803,020 allowance for uncollectible taxes is based upon historical experience in collecting property taxes.

Note 12: TRANSACTION WITH HARRIS COUNTY EMERGENCY CORPS

Under the terms of the Ambulance and Emergency Service Agreement, during the year ended December 31, 2023, the District recorded program expenses totaling \$19,135,769 consisting of payment to HCEC for services provided, of which \$2,692,122 is due to HCEC as of December 31, 2023, 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 and leases ambulances and vehicles under another lease agreement. During 2023, the District received rental income for the property and capital assets totaling \$654,169. (See 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 2023, there were no collected receivables donated to HCEC.

Commissioners are reimbursed a maximum of \$7,200 annually for their service. Reimbursements totaled \$33,300 for the year ended December 31, 2023, and are included in general and administrative expenses on the accompanying financial statements.

Harris County Emergency Services District #1

Notes to Financial Statements

Note 13: LEASE REVENUE

The District leases properties and vehicles under non-cancellable arrangements to HCEC expiring December 31, 2024. Property and equipment under leases consist of substantially all capital assets listed in Note 9. The leases include options for renewing the leases for an additional three-year term. The District is reasonably certain that HCEC will exercise these renewal options. In accordance with the provisions of GASB Statement No. 87, the lease was measured on January 1, 2022, date of implementation, with a lease term of 6 years and an interest rate of 1.85%, the District's estimated incremental borrowing rate for HCEC. There was no interest rate specified in the lease agreements. The lease for properties calls for monthly payments of \$45,553. The lease for vehicles calls for monthly payments of \$7,000. For the year ended December 31, 2023, the District recognized \$602,682 in lease revenue and \$51,487 in lease interest revenue which have been reported as lease revenue in the accompanying financial statements.

Annual requirements to amortize the lease receivable and related interest are as follows:

<i>For the years ending December 31,</i>	Principal	Interest	Total
2024	\$ 589,956	\$ 40,680	\$ 630,636
2025	600,963	29,673	630,636
2026	612,176	18,460	630,636
2027	629,153	1,483	630,636
Total minimum lease payments	\$ 2,432,248	\$ 90,296	\$ 2,522,544

Note 14: CONSTRUCTION COMMITMENTS

In June 2023, the District entered into a construction contract totaling \$6,919,000 for the construction of two new EMS facilities. As of December 31, 2023, amounts remaining under this contract, including retainage, totaled \$5,498,392. The District expects construction to be completed during 2024.

Note 15: SUBSEQUENT EVENTS

The District has evaluated subsequent events through the date the financial statements were available to be issued, April 24, 2024, 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, 2023</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes revenue, net	\$ 19,829,253	\$ 21,721,193	\$ 21,566,132	\$ (155,061)
Lease revenues	630,636	630,636	654,169	23,533
Property taxes penalties and interest	216,179	216,179	218,107	1,928
Interest income	60,000	360,000	1,081,175	721,175
Contributions	9,000	9,000	11,328	2,328
Other income	10,000	10,000	121,640	111,640
Total available revenues	20,755,068	22,947,008	23,652,551	705,543
Expenditures				
Program expense	19,243,615	20,852,345	19,135,769	1,716,576
Collection fees	80,000	80,000	105,855	(25,855)
Professional fees	170,000	170,000	310,855	(140,855)
Appraisal fees	143,000	143,000	168,585	(25,585)
General and administrative expenses	169,958	180,958	145,928	35,030
Capital outlay	6,440,000	6,440,000	2,288,492	4,151,508
Depreciation expense	2,500,000	2,500,000	-	2,500,000
Debt service				
Principal payments	-	-	1,411,773	(1,411,773)
Interest expense	140,000	140,000	171,101	(31,101)
Loan costs	75,000	75,000	-	75,000
Total expenditures	28,961,573	30,581,303	23,738,358	6,842,945
Excess of revenues over expenditures	\$ (8,206,505)	\$ (7,634,295)	\$ (85,807)	\$ 7,548,488