
HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

REPORT ON FINANCIAL STATEMENTS
(With Supplemental Material)

FOR THE YEAR ENDED DECEMBER 31, 2019

BREEDLOVE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

October 15, 2020

Board of Commissioners
Harris County Emergency Services District No. 7
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harris County Emergency Services District No. 7, as of and for the year ended December 31, 2019, 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 an opinion 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Harris County Emergency Services District No. 7, as of December 31, 2019, and the respective changes in financial position for the year then ended in conformity 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 and budgetary comparison information on pages 3 through 6 and 17 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Harris County Emergency Service District No. 7's financial statements. The Supplementary Information on pages 18 to 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brechner & Co., P.C.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

MANAGEMENT'S DISCUSSION & ANALYSIS DECEMBER 31, 2019

Our discussion and analysis of the financial performance of Harris County Emergency Services District No. 7 (the "District") provides an overview of the District's financial activities for the year ended December 31, 2019. Please read it in conjunction with the District's financial statements, included in this annual report.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include (1) combined fund financial statements and government-wide financial statements, and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine (1) the Statement of Net Position and Governmental Funds Balance Sheet, and (2) the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance. This report also includes other supplemental information in addition to these basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide financial statements is the Statement of Net Position. This statement is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities reports how the District's net position changed during the current fiscal year. All current revenues and expenses are included regardless of when cash is received or paid.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$63,485,025 as of December 31, 2019.

With the implementation of Government Accounting Standards Board (GASB) Statement No. 34, the District is presenting comparable prior-year columns in the various comparisons and analyses.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

MANAGEMENT'S DISCUSSION & ANALYSIS DECEMBER 31, 2019 (Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of Net Position

	2019	2018
Current and other assets	\$ 33 471 036	\$ 33 114 548
Capital assets, net of accumulated depreciation	<u>59 458 214</u>	<u>56 339 373</u>
Total assets	<u>\$ 92 929 250</u>	<u>\$ 89 453 921</u>
Current liabilities	\$ 3 222 606	\$ 3 189 257
Long term liabilities	<u>26 221 619</u>	<u>30 238 137</u>
Total liabilities	<u>\$ 29 444 225</u>	<u>\$ 33 427 394</u>
Net position:		
Net investment in capital assets	\$ 30 519 876	\$ 23 431 827
Unrestricted	<u>32 965 149</u>	<u>32 594 700</u>
Total net position	<u>\$ 63 485 025</u>	<u>\$ 56 026 527</u>

The following table provides a summary of the District's operations for the years ended December 31, 2019 and 2018. The District increased its net position by \$7,465,998.

Summary of Changes in Net Position

	2019	2018
Revenues:		
Property taxes	\$ 13 490 459	\$ 12 061 483
Other revenues	<u>14 382 273</u>	<u>12 124 060</u>
Total Revenues	<u>27 872 732</u>	<u>24 185 543</u>
Expenses for services	16 367 169	12 119 168
Operating expenses	1 748 213	2 032 945
Interest expense	794 766	726 402
Depreciation	<u>1 504 086</u>	<u>1 249 020</u>
Total Expenses	<u>20 414 234</u>	<u>16 127 535</u>
Change in net position	7 458 498	8 058 008
Net position, beginning of year	<u>56 026 527</u>	<u>47 968 519</u>
Net position, end of year	<u>\$ 63 485 025</u>	<u>\$ 56 026 527</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2019

(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's fund balance as of December 31, 2019 was \$25,714,536.

The General Fund balance increased by \$197,341.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for property tax and sales tax revenues, costs, general expenditures, and resources not accounted for in another fund.

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustment column and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the basic financial statements provide information essential to a full understanding of government-wide and fund financial statements. The notes to the financial statements follow the financial statements in this annual report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI for the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Commissioners did not amend the budget during the fiscal year. The change in fund balance was \$1,159,726 less than budgeted due to greater than expected capital outlays and debt service, offset by larger than expected property tax and sales tax revenue.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2019

(Continued)

CAPITAL ASSETS AND RELATED DEBT

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below.

Capital Assets (Net of Accumulated Depreciation)

	2019	2018
Land	\$ 15 867 861	\$ 15 848 355
Construction in progress	77 827	4 376 385
Capital assets, net of depreciation	<u>43 512 526</u>	<u>36 114 633</u>
Total capital assets	<u>\$ 59 458 214</u>	<u>\$ 56 339 373</u>

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2019 are summarized as follows:

Long term debt, beginning of year	\$ 32 907 546
Note proceeds	-
Retirements of principal	<u>(3 969 208)</u>
Long term debt, end of year	<u>\$ 28 938 338</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to John Peeler, Coveler & Peeler, P.C., *Attorneys at Law*, Two Memorial City Plaza, 820 Gessner, Suite 1710, Houston, Texas 77024-8261.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2019

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 17 793 979	\$ -	\$ 17 793 979
Property taxes receivable	7 371 421	-	7 371 421
Due from tax assessor	3 783 491	-	3 783 491
Other receivables	443	-	443
Prepaid expenses	4 521 702	-	4 521 702
Capital Assets			
Land	-	15 867 861	15 867 861
Construction in progress	-	77 827	77 827
Property and equipment, net of accumulated depreciation of \$6,059,901	-	43 512 526	43 512 526
Total Assets	<u>\$ 33 471 036</u>	<u>\$ 59 458 214</u>	<u>\$ 92 929 250</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 385 079	\$ 120 808	\$ 505 887
Long term liabilities			
Due within one year	-	2 716 719	2 716 719
Due after one year	-	26 221 619	26 221 619
Total Liabilities	<u>385 079</u>	<u>29 059 146</u>	<u>29 444 225</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Tax Revenue	<u>7 371 421</u>	<u>(7 371 421)</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>7 371 421</u>	<u>(7 371 421)</u>	<u>-</u>
<u>FUND BALANCE/NET POSITION</u>			
Fund Balance			
Unassigned fund balance	<u>25 714 536</u>	<u>(25 714 536)</u>	<u>-</u>
Total Fund Balance	<u>25 714 536</u>	<u>(25 714 536)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 33 471 036</u>		
Net Position			
Net investment in capital assets		30 519 876	30 519 876
Unrestricted		32 965 149	32 965 149
Total Net Position		<u>63 485 025</u>	<u>63 485 025</u>
Total Liabilities, Deferred Inflows of Resources and Net Position		<u>\$ 59 458 214</u>	<u>\$ 92 929 250</u>

See the Accompanying Independent Auditors' Report and Notes to Financial Statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 13 330 566	\$ 159 893	\$ 13 490 459
Sales taxes	13 240 844	-	13 240 844
Penalty and interest on property taxes	187 193	-	187 193
Interest earned on temporary investments	451 256	-	451 256
Miscellaneous	502 980	-	502 980
Total Revenues	<u>27 712 839</u>	<u>159 893</u>	<u>27 872 732</u>
Expenditures/Expenses			
Service Operations			
Fire Association- operating funds	16 367 169	-	16 367 169
Fire Association- capital funds	746 947	-	746 947
Station expenses	5 243	-	5 243
Accounting	25 261	-	25 261
Appraisal district fees	90 110	-	90 110
Collection fees	81 406	-	81 406
Sales tax monitoring	251 501	-	251 501
District administration	68 822	-	68 822
Election expenses	1 943	-	1 943
Legal fees	138 927	-	138 927
Notice, publication, and filing fees	10 401	-	10 401
Professional services	320 170	-	320 170
Insurance	7 482	-	7 482
Capital Outlay	4 622 927	(4 622 927)	-
Debt Service			
Principal	3 969 208	(3 969 208)	-
Interest	807 981	(13 215)	794 766
Depreciation	-	1 504 086	1 504 086
Total Expenditures/Expenses	<u>27 515 498</u>	<u>(7 101 264)</u>	<u>20 414 234</u>
Excess (Deficiency) of Revenues Over Expenditures	197 341	7 261 157	
Change in Net Position			7 458 498
Fund Balance/Net Position			
Beginning of Year	<u>25 517 195</u>	<u>30 509 332</u>	<u>56 026 527</u>
End of Year	<u>\$ 25 714 536</u>	<u>\$ 37 770 489</u>	<u>\$ 63 485 025</u>

See the Accompanying Independent Auditors' Report and Notes to Financial Statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

NOTE (1) CREATION OF DISTRICT

Harris County Rural Fire Prevention District No. 1 was created by the Commissioners' Court of the County of Harris in 1979, in accordance with Article III, section 48-d, of the Texas Constitution. At an election held on May 10, 1997, pursuant to Section 794.100, Health & Safety Code, the District converted from a rural fire prevention district to an emergency services district operating under Chapter 775, Health & Safety Code. The District was then renamed Harris County Emergency Services District No. 7 (the District). The District was established to provide operating funds for the contracting of fire prevention within the boundaries of the District.

NOTE (2) SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The District is an Emergency Services District with a five-member board of commissioners, who are elected to a four year term on a specific staggered basis.

The District follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the District is financially accountable. The District is not a participant in any joint venture and has not identified any entities which would be components units of the District.

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District.

B. BASIS OF PRESENTATION

The financial transactions of the District are recorded in an individual fund. The funds are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. The funds are reported by generic classification within the financial statements.

The District uses the following fund types:

a. Governmental Funds

General Fund - To account for all revenues and expenditures not required to be accounted for in other funds.

b. Fund Balances

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Government Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 (Continued)

NOTE (2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

b. Fund Balances

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., board of directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the board of directors or by an official or body to which the board of directors delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose.

The District uses the following classifications for net position:

Net Investment in Capital Assets - To indicate the value of capital invested in capital assets less accumulated depreciation, net of associated debt.

Restricted - It includes funds restricted within the General Fund for the purposes of contingencies or emergencies. The Board must approve any changes in the restriction of this fund balance.

Unrestricted - To indicate net position that is available for use in future periods.

C. BASIS OF ACCOUNTING

All Governmental Funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded in the accounting period in which they become available and measurable. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which the fund liability is incurred, if measurable. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

The District has adopted GASB 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*." In compliance with GASB 34, the District has presented a Statement of Net Position and Statement of Activities for the year ended December 31, 2019. These statements are presented on an accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded in the period they are earned, and expenses are recorded in the period they are incurred. The "Adjustments" column on these statements represents tax revenues adjusted to reflect an accrual basis rather than a modified accrual basis of accounting. All fund balances are adjusted to reflect net position.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

(Continued)

NOTE (2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGET

The District annually adopts a budget for the General Fund in accordance with the accounting principles applicable to this fund. The Board of Commissioner's approval is required for revisions that alter the total expenditures. Reported budgeted amounts are as originally adopted. Budgeted amounts lapse annually.

E. CASH EQUIVALENTS

The District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

F. CAPITAL ASSETS

Capital assets, which include land, buildings and equipment, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund as incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset.

Assets are capitalized if they have an original cost of \$25,000 or more, and a useful life of at least one year. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings	40
Temporary Buildings	10
Vehicles	15
Equipment	2-15

G. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. RECEIVABLES

Management considers accounts receivable to be fully collectible at year-end; accordingly, no allowance for doubtful accounts is required.

Amounts due from tax assessor at year end are amounts collected on behalf of the District that had not been deposited into the District's account at year end. The amount was received subsequent to year end.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 (Continued)

NOTE (2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position and governmental funds balance sheet are different because:

Total Fund Balance at December 31, 2019	<u>\$ 25 714 536</u>
Capital assets used in governmental activities are not financial and are not reported in the funds	59 458 214
Conversion of property tax assessments to full accrual basis	7 371 421
Interest paid on long term debt is adjusted to accrual basis	(120 808)
Notes payable obligations are not due and payable in the current period and are not reported in the funds	<u>(28 938 338)</u>
Adjustment to fund balance to arrive at net position	<u>37 770 489</u>
Total Net Position at December 31, 2019	<u><u>\$ 63 485 025</u></u>

Amounts reported for governmental activities in the statement of activities are different because:

Change in fund balance	\$ 197 341
Governmental funds report capital outlays as expenditures. However, for government-wide financials statements, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay and conveyance of capital assets exceeded depreciation in the current period.	3 118 841
Interest paid on long term debt is adjusted to accrual basis	13 215
Governmental funds report proceeds from debt because they provide current financial resources to governmental funds. However, they do not affect net position.	-
Principal payments on debt are reported as expenditures in the funds. However, they do not affect net position.	3 969 208
Conversion of property tax assessments to full accrual basis	<u>159 893</u>
Change in net position of governmental activities	<u><u>\$ 7 458 498</u></u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

(Continued)

NOTE (3) CONTRACTS FOR FIRE PROTECTION AND RESCUE SERVICES

Effective April 1, 1987, the District entered into an agreement with the Spring Volunteer Fire Association to provide fire protection and rescue services. The current contract is for a period of five years beginning January 1, 2015. Under the terms of the contract, the Association agrees to provide services to protect life and property from fire and conserve natural and human resources to the residents and commercial interests within the geographic area of the District on a 24-hour per day basis seven days a week. The contract terminated effective April 1, 2020 when the District became the direct employer of fire suppression and administrative personnel and acquired the assets of the Association.

The Association agreed to submit a budget indicating proposed operating, capital and debt expenditures; all sources of funding to the Association, all carried forward funds, and such other information as may be reasonably requested by the District and/or supplied by the Association at the District's October meeting each year for the District's review and approval. The District agreed to provide quarterly payments to the Association based on the approved budgets. According to the contract, in the event of dissolution of the Association or termination of the contract due to breach by the Association, title to and ownership of all items of personal property all land purchased wholly with District appropriated funds shall revert to the District; and ownership and possession of all non-disposable assets purchased partly with District appropriated funds shall revert to the District, subject to calculated ratio. In the event of a proposed sale of an asset purchased wholly or partly with funds advanced to the Association by the District, the sale proceeds shall be reinvested in replacement equipment or shall be deposit in the District's account subject to future disbursement for budgeted item.

During the year ended December 31, 2019, \$17,114,116 was paid to the Association. Separate financial statements of the Association are available as of December 31, 2019.

NOTE (4) AD VALOREM TAX

During the year ended December 31, 2019, the District levied an ad valorem tax at the rate of \$0.09939 per \$100 of assessed valuation, which resulted in a tax levy of \$13,644,043 for 2019, on the taxable valuation of \$13,727,782,358 for the 2019 tax year. The ad valorem tax was due upon receipt and was considered delinquent if not paid by February 1, at which time penalties and interest were assessed. The levy date of the tax was the later of September 30 of the prior year or the 60th day after the receipt of the certified tax roll. The lien date was January 1 of the subsequent year.

Property taxes are initially recorded as receivables and unearned revenue at the time the tax levy is billed. Revenues recognized during the fiscal year ended December 31, 2019, include collections during the current period or within 60 days of year-end related to the 2019 and prior years' tax levies.

NOTE (5) DEPOSITS AND INVESTMENTS

Deposits were with various contracted depository banks in checking accounts and money market accounts during the year. The deposits were secured by FDIC coverage, and when necessary, additional securities were pledged.

The contracted depository bank used by the District was BBVA Compass Bank. The largest cash balance during the year for BBVA Compass Bank was \$14,150,862, which occurred on January 7, 2019. These funds were adequately secured by \$250,000 FDIC coverage and pledged securities.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 (Continued)

NOTE (5) DEPOSITS AND INVESTMENTS (Continued)

The District holds investments at December 31, 2019, in accordance with the Board approved investment policy, in TexPool State Treasury ("TexPool"). In following the Public Funds Collateral Act, TexPool invests the District's funds in obligations of the United States, obligations issued by a public agency that is payable from taxes, revenues, or a combination thereof that has been rated by a nationally recognized rating agency with a rating of not less than A, or any security in which a public entity may invest under the Public Funds Investment Act of 1987. Surety bonds and investment securities are used as collateral to secure both the amount of the deposits with TexPool plus any accrued interest. A separate financial report for TexPool is prepared in accordance with GASB Statement No. 31, *Accounting and financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained from TexPool Participant Services, c/o Federated Investors, 1001 Texas Ave., 14th Floor, Houston, Texas 77002. The District held investments in TexPool at December 31, 2019 with a total carrying value and market value of \$15,150.

The District holds investments at December 31, 2019, in accordance with the Board approved investment policy, in Texas CLASS. In following the Public Funds Collateral Act, Texas CLASS invests the District's funds in obligations of the United States, obligations issued by a public agency that is payable from taxes, revenues, or a combination thereof that has been rated by a nationally recognized rating agency with a rating of not less than A, or any security in which a public entity may invest under the Public Funds Investment Act of 1987. Surety bonds and investment securities are used as collateral to secure both the amount of the deposits with Texas CLASS plus any accrued interest. A separate financial report for Texas CLASS is prepared in accordance with GASB Statement No. 31, *Accounting and financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained from Texas CLASS Client Services, 717 17th St., Suite 1850, Denver, Colorado 80202. The District held investments in Texas CLASS at December 31, 2019 with a total carrying value and market value of \$15,994,307.

Statutes authorize the District to invest in direct or indirect obligations of the United States, the state, or any county, school district, or other political subdivision of the state. Funds of the District may also be placed in certificates of deposit of state or national banks or savings associations within the state.

Local governments are subject to the Public Funds Investment Act as amended during the 1995 legislative session. The Act directs local governments to adopt a written investment policy that primarily emphasizes safety of principal and liquidity. Also addressed under the Act are the areas of investment diversification, yield, maturity, and quality of investment management. The District has substantially complied with the Act's provisions during the year ended December 31, 2019.

NOTE (6) CHANGES IN CAPITAL ASSETS

The changes in capital assets for the year are as follows:

	Beginning of Year	Acquisitions (Disposals)	Depreciation Expense	End of Year
Land	\$ 15 848 355	\$ 19 506	\$ -	\$ 15 867 861
Buildings	32 089 133	8 292 324	-	40 381 457
Vehicles	9 569 943	609 655	-	10 179 598
Equipment	44 945	-	-	44 945
Fences	470 513	-	-	470 513
Less: Accumulated Depreciation	(6 059 901)	-	(1 504 086)	(7 563 987)
Capital Assets	36 114 633	8 901 979	(1 504 086)	43 512 526
Construction in Progress	4 376 385	(4 298 558)	-	77 827
Totals	\$ 56 339 373	\$ 4 622 927	\$ (1 504 086)	\$ 59 458 214

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 (Continued)

NOTE (7) LONG-TERM DEBT

On April 28, 2016, the District entered into a construction loan agreement with JP Morgan Chase Bank at an interest rate of 1.71%. The total agreed loan amount is \$10,000,000. One interest payment was due on October 15, 2016, and 29 semi-annual payments including interest and various principal amounts are due beginning April 15, 2017. At January 1, 2019, the balance due on the note was \$8,811,000. During the year ended December 31, 2019, the District made principal and interest payments of \$610,000 and \$145,452, respectively. At December 31, 2019, the balance due on the note was \$8,201,000. The loan was used for the construction of fire station No. 75 and No. 76. Sales tax revenue collected acts as collateral for the note.

On August 5, 2016, the District entered into a loan agreement (Sales Tax Revenue Note, Series 2016B) with JP Morgan Chase Bank at an interest rate of 1.49% to refinance prior construction loans with Trustmark National Bank and Wells Fargo Bank. The total agreed loan amount is \$8,052,005. A total of 16 semi-annual payments including interest and various principal amounts are due beginning February 1, 2017. At January 1, 2019 the balance due on the note was \$5,758,414. During the year ended December 31, 2019, the District made principal and interest payments of \$1,171,076 and \$81,462, respectively. At December 31, 2019, the balance due on the note was \$4,587,338. The loan was used for construction of new fire station No. 78 and No. 79. Sales tax revenue collected acts as collateral for the note.

On August 25, 2016, the District entered into a loan agreement (Sales Tax Refunding Note, Series 2016C) with JP Morgan Chase Bank at an interest rate of 1.68% to refinance a prior construction loan with Independent Bank. The total agreed loan amount is \$2,684,846. A total of 11 semi-annual payments including interest and various principal amounts are due beginning February 1, 2017. At January 1, 2019 the balance due on the note was \$2,277,185. During the year ended December 31, 2019, the District made principal and interest payments of \$195,505 and \$37,441, respectively. At December 31, 2019, the balance due on the note was \$2,081,680. The loan was used for construction of new fire station No. 77. Sales tax revenue collected acts as collateral for the note.

On December 28, 2017 the District entered into a construction loan agreement (Sales Tax Revenue note, Series 2017) with Government Capital Corporation at an interest rate of 3.35%. The total agreed loan amount is \$10,000,000. A total of 20 annual payments including interest and various principal amounts are due beginning on December 15, 2018. At January 1, 2019 the balance due on the note was \$9,633,961. During the year ended December 31, 2019, the District made principal and interest payments of \$370,690 and \$322,217, respectively. At December 31, 2019, the balance due on the note was \$9,263,271. The loan was used for the construction of station No. 74 and No. 75 and a maintenance facility. Sales tax revenue collected acts as collateral for the note.

On July 2, 2018 the District entered into a loan agreement with DAC Ltd. at an interest rate of 3.5% in connection with the purchase of 51.277 acres of land from DAC Ltd. The total agreed loan amount is \$6,546,097 and because no cash was received by the District, that amount was capitalized with the other cash amounts paid for the land to gross the land up to its fair market value. The land acts as collateral for the note. A total of 60 quarterly payments including interest and various principal amounts are due beginning August 1, 2018. In addition, 14 annual principal payments of \$150,000 are due beginning August 1, 2019. At January 1, 2019, the balance due on the note was \$6,426,986. During the year ended December 31, 2019, the District made principal and interest payments of \$1,621,937 and \$221,409, respectively. At December 31, 2019, the balance due on the note was \$4,805,049.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 (Continued)

NOTE (7) LONG-TERM DEBT (Continued)

Future maturities of the balances outstanding are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2020	\$ 2 716 719
December 31, 2021	2 717 173
December 31, 2022	3 969 990
December 31, 2023	2 135 214
December 31, 2024	2 183 926
Thereafter	<u>15 215 316</u>
Total Amount	<u>\$28 938 338</u>

NOTE (8) SALES TAX REVENUE

On May 14, 2011, the residents of the District authorized the District to impose a 1% sales tax where eligible within the District. During the year ended December 31, 2019, the District received \$13,240,844 in sales tax revenue.

NOTE (9) BROKERAGE FEE AGREEMENT

On July 2, 2018, the District entered into an agreement with JT Lynch Company, LLC for the payment of brokerage fees in association with the purchase of land. The fee is to be paid in over 24-month period in quarterly installments of \$56,517. The District made payments totaling \$226,070 during the year ended December 31, 2019. This amount is included under professional services on the statement of activities and governmental revenues, expenditures and changes in fund balance.

NOTE (10) SUBSEQUENT EVENTS

Effective April 1, 2020, the District became the direct employer of fire suppression and administrative personnel and acquired the assets of the Association. The merged entity continues to provide fire suppression and prevention and first aid services.

In addition, the coronavirus pandemic occurred subsequent to year end. The economic effects of this pandemic on the District are unknown at the date of this report.

Management has evaluated subsequent events through October 15, 2020, (the date the financial statements were available to be issued) and noted no other subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2019

	Original and Final Budget*	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$11 939 878	\$ 13 330 566	\$ 1 390 688
Sales tax revenue	10 500 000	13 240 844	2 740 844
Penalty and interest on property taxes	-	187 193	187 193
Interest earned on temporary investments	12 000	451 256	439 256
Miscellaneous	-	510 480	510 480
Total Revenues	<u>22 451 878</u>	<u>27 720 339</u>	<u>5 268 461</u>
Expenditures/Expenses			
Service Operations			
Fire Association- operating funds	16 264 697	16 367 169	(102 472)
Fire Association- capital funds	-	746 947	(746 947)
Station expenses	-	5 243	(5 243)
Accounting	22 000	25 261	(3 261)
Appraisal district fees	50 000	90 110	(40 110)
Collection fees	-	81 406	(81 406)
Sales tax monitoring	8 000	251 501	(243 501)
District administration	63 000	68 822	(5 822)
Election expenses	-	1 943	(1 943)
Legal Fees	155 000	138 927	16 073
Notice, publication, and filing fees	5 000	10 401	(5 401)
Professional services	479 500	320 170	159 330
Insurance	15 000	7 482	7 518
Capital Outlay	1 769 414	4 630 427	(2 861 013)
Debt Service			
Note principal	1 954 213	3 969 208	(2 014 995)
Note interest	308 987	807 981	(498 994)
Total Expenditures/Expenses	<u>21 094 811</u>	<u>27 522 998</u>	<u>(6 428 187)</u>
Change in Fund Balance	1 357 067	197 341	(1 159 726)
Fund Balance			
Beginning of the Year	<u>25 517 195</u>	<u>25 517 195</u>	<u>-</u>
End of the Year	<u>\$26 874 262</u>	<u>\$ 25 714 536</u>	<u>\$ (1 159 726)</u>

* Budget was not amended during the year. Therefore, the original budget is the same as the final budget.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

SUPPLEMENTARY INFORMATION

SCHEDULE OF TEMPORARY INVESTMENTS (CASH EQUIVALENTS) DECEMBER 31, 2019

Bank	Maturity	Interest Rate	Amount
BBVA Compass Bank MM Account	-	0.100%	\$ 137
BBVA Compass Bank MM Account	-	0.100%	151 986
TexPool	-	1.610%	15 150
Texas CLASS - General Operating Fund	-	1.880%	137 896
Texas CLASS - Sales Tax		1.880%	15 856 411
		TOTAL	<u>\$ 16 161 580</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

SUPPLEMENTARY INFORMATION

ANALYSIS OF TAXES RECEIVABLE DECEMBER 31, 2019

Taxes Receivable - Beginning of Year	\$ 7 211 528
2019 Tax Roll	13 644 043
Adjustments	<u>(153 584)</u>
Total to be Accounted for	20 701 987
Tax Collections Received from Tax Collector	<u>(13 330 566)</u>
Taxes Receivable - End of Year	<u><u>\$ 7 371 421</u></u>
Taxes Receivable - By Years	
2019	\$ 7 167 317
2018	69 519
2017	31 096
2016	22 364
2015 and prior	<u>81 125</u>
Taxes Receivable - End of Year	<u><u>\$ 7 371 421</u></u>

Assessed Valuation Summary

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Property Valuations					
Total Property Valuations	<u>\$13 727 782 358</u>	<u>\$12 660 798 169</u>	<u>\$12 133 912 537</u>	<u>\$11 136 025 114</u>	<u>\$9 861 939 752</u>
Tax Rate per \$100 Valuations	<u>\$ 0.09939</u>	<u>\$ 0.09606</u>	<u>\$ 0.09606</u>	<u>\$ 0.10000</u>	<u>\$ 0.06545</u>
Tax Rolls	<u>\$ 13 644 043</u>	<u>\$ 12 161 963</u>	<u>\$ 11 655 836</u>	<u>\$ 11 136 025</u>	<u>\$ 6 454 640</u>
Percent of Taxes Collected to Taxes Levied	<u>47.5%</u>	<u>99.4%</u>	<u>99.7%</u>	<u>99.8%</u>	<u>99.9%</u>

See Independent Auditors' Report

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

SUPPLEMENTARY INFORMATION

BOARD MEMBERS AND CONSULTANTS DECEMBER 31, 2019

District Mailing Address: Harris County Emergency Services District No. 7
656 E. Louetta Rd.
Spring, Texas 77373

District Telephone Number: (281) 355-1266

<u>Names</u>	<u>Term of office or Date Hired</u>	<u>Fees Paid* FYE 12/31/19</u>	<u>Expense Reimburse- ments FYE 12/31/19</u>	<u>Title at Year End</u>
Board Members:				
Bob Schmanski	(Elected) 06/01/16-05/31/20	\$ 7 200	\$ 1 656	President
Gayle Fuller	(Elected) 06/01/18-05/31/22	\$ 6 150	\$ -	Vice President
Todd Anderson	(Appointed) 08/08/16-05/31/20	\$ 1 650	\$ -	Treasurer
Keith Willingham	(Elected) 06/01/18-05/31/22	\$ 6 900	\$ -	Secretary
Melanie Gander	(Appointed) 9/21/17-05/31/20	\$ 1 800	\$ -	Assistant Secretary/ Treasurer

* Fees are the amounts actually paid to a commissioner during the District's fiscal year.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 7

SUPPLEMENTARY INFORMATION

BOARD MEMBERS AND CONSULTANTS

DECEMBER 31, 2019

(Continued)

<u>Names</u>	<u>Date Hired</u>	<u>Fees Paid* FYE 12/31/19</u>	<u>Expense Reimburse- ments FYE 12/31/19</u>	<u>Title at Year End</u>
Consultants:				
Coveler & Peeler, P.C.	2000	\$ 58 123	\$ 1 864	Attorney
Thrower Law, P.C.	2017	\$ 20 156	\$ -	Attorney
BRW Architects, Inc.	2017	\$ 20 986	\$ -	Architect
Raba Kistner Consultants, Inc.	2017	\$ 1 353	\$ -	Engineer
JT Lynch Co., LLC	2017	\$ 274 070	\$ -	Real Estate Consultant
Ann Harris Bennett	2003	\$ 81 406	\$ -	Tax Collector
McLennan & Associates, LP	2003	\$ 23 458	\$ 1 682	Bookkeeper
Breedlove & Co., P.C.	2009	\$ 10 938	\$ -	Auditor
Harris County Appraisal District	2003	\$ 90 850	\$ -	Appraisal District
Sales Tax Assurance LLC	2013	\$ 266 056	\$ -	Sales Tax Monitor

* Fees Paid are the amounts actually paid to a consultant during the District's fiscal year.