

Houston Media Source
(A Component Unit of the City of Houston)

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2019 and 2018

Houston Media Source

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Independent Auditors' Report

To the Board of Directors of
Houston Media Source:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Houston Media Source (a component unit of the City of Houston), as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise Houston Media Source'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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Houston Media Source as of June 30, 2019 and 2018, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 5 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.

Blazek & Vetterling

September 16, 2019

**Houston Media Source
Management's Discussion and Analysis
For the years ended June 30, 2019 and 2018
(unaudited)**

The following discussion and analysis of Houston Media Source's (HMS) financial performance provides an overview of the financial activities for the years ended June 30, 2019 and 2018. This discussion and analysis should be read in conjunction with HMS's financial statements, which follow this section.

Financial Highlights

HMS was created in 1986 by the City of Houston (the City) to coordinate and develop programs and facilities which provide the public with access to the cable television franchises licensed to operate in the City.

Financial highlights for the fiscal year ending June 30, 2019 include:

- HMS's assets include cash and certificates of deposit of \$5.5 million, \$3.1 million of which is restricted for production-related capital assets.
- HMS recognized public access revenue of \$1.8 million.
- HMS invested \$526,000 in additional capital assets, most of which were production-related.
- Revenue exceeded expenses resulting in an increase in net position of \$104,000.

Financial highlights for the fiscal year ending June 30, 2018 include:

- HMS's assets include cash and certificates of deposit of \$5.3 million, \$3 million of which is restricted for production-related capital assets.
- HMS recognized public access revenue of \$1.9 million.
- HMS invested \$517,000 in additional capital assets, most of which were production-related.
- Revenue exceeded expenses resulting in an increase in net position of \$275,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to HMS's basic financial statements. The basic financial statements present combined government-wide and governmental fund financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Government-wide financial statements reflect an economic resources measurement focus and are prepared using the accrual basis of accounting. The government-wide financial statements are designed to provide readers with a broad overview of HMS's finances, in a manner similar to a private-sector business.

The statement of net position presents the financial position of HMS at year end by presenting HMS's assets and liabilities, with net position representing the difference between assets and liabilities. The

statement of activities presents information showing changes in HMS's net position during the year. Changes in net position are reported when an underlying event giving rise to a change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Governmental fund financial statements reflect a current financial resources measurement focus and are prepared using the modified accrual basis of accounting. Unlike the government-wide financial statements, the governmental fund financial statements present information showing the near-term inflows and outflows of spendable resources and the balances of spendable resources at year end. Reconciliation between the government-wide financial statements and the governmental fund financial statements is reflected in a separate adjustments column.

Condensed Government-Wide Financial Information and Financial Analysis

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Condensed Statements of Net Position:</i>			
Assets:			
Cash and certificates of deposit	\$ 5,491,557	\$ 5,299,300	\$ 4,999,686
Accounts receivable from City of Houston	904,253	917,122	975,825
Prepaid expenses and other assets	50,916	42,632	40,102
Capital assets, net of depreciation	<u>1,491,024</u>	<u>1,539,749</u>	<u>1,482,072</u>
Total assets	<u>\$ 7,937,750</u>	<u>\$ 7,798,803</u>	<u>\$ 7,497,685</u>
Liabilities:			
Accounts payable and accrued expenses	<u>\$ 330,682</u>	<u>\$ 296,007</u>	<u>\$ 269,804</u>
Net position:			
Invested in capital assets	\$ 1,491,024	\$ 1,539,749	\$ 1,482,072
Restricted for production-related capital assets	3,076,301	3,007,678	2,951,415
Unrestricted	<u>3,039,743</u>	<u>2,955,369</u>	<u>2,794,394</u>
Total net position	<u>\$ 7,607,068</u>	<u>\$ 7,502,796</u>	<u>\$ 7,227,881</u>
<i>Condensed Statements of Activities:</i>			
Expenses:			
Public cable access activities	\$ 1,510,154	\$ 1,390,978	\$ 1,318,532
Management and general	<u>321,636</u>	<u>311,454</u>	<u>316,268</u>
Total expenses	<u>1,831,790</u>	<u>1,702,432</u>	<u>1,634,800</u>
Revenue:			
Public access revenue received through City of Houston	1,813,003	1,869,937	1,927,954
Service fees and interest income	<u>123,059</u>	<u>107,410</u>	<u>108,550</u>
Total revenue	<u>1,936,062</u>	<u>1,977,347</u>	<u>2,036,504</u>
CHANGES IN NET POSITION	104,272	274,915	401,704
Net position, beginning of year	<u>7,502,796</u>	<u>7,227,881</u>	<u>6,826,177</u>
Net position, end of year	<u>\$ 7,607,068</u>	<u>\$ 7,502,796</u>	<u>\$ 7,227,881</u>

HMS's assets consist primarily of cash, certificates of deposit, and accounts receivable from the City for public access payments received through the City by cable television providers, and production and office capital assets. Net position is divided into three components. Invested in capital assets comprises HMS's property and equipment, net of accumulated depreciation. Restricted for production-related capital assets are required to be used for acquisition, major repairs, and maintenance of production-related equipment. All other net position is unrestricted.

The statement of activities shows the expenses and revenue of HMS and the corresponding effect on net position. The majority of HMS's revenue is provided by the City from public access payments paid by cable television providers. The funds are to be used to provide free broadcast access to a cable television channel for Houston-area residents and non-profit organizations, and to provide media education and equipment access to Houston-area residents to enable them to produce original local programming.

The increase in cash at June 30, 2019 of \$192,000 is primarily the result of the increased net position of \$104,000 less cash outflows for capital asset acquisitions of \$486,000, adding back non-cash depreciation expense of \$574,000. The increase in cash at June 30, 2018 of \$300,000 is primarily the result of the increased net position of \$275,000 less cash outflows for capital asset acquisitions of \$495,000, adding back non-cash depreciation expense of \$459,000. The increase in cash at June 30, 2017 of \$513,000 is primarily the result of the increased net position of \$402,000 less cash outflows for capital asset acquisitions of \$262,000, adding back non-cash depreciation expense of \$395,000. At June 30, 2019 and 2018, accounts receivable from the City included two quarters of public access collections.

HMS's net position increased \$104,000 in 2019, \$275,000 in 2018, and \$402,000 in 2017. Although depreciation expense has increased in each of the years 2019, 2018 and 2017 due to capital asset additions, non-depreciation expenses have remained relatively stable for the past three years. Public access payments received from the City have fluctuated decreasing \$57,000 in 2019, decreasing \$60,000 in 2018, and increasing \$60,000 in 2017.

Capital Assets

Capital assets, net of depreciation – June 30, 2017	\$ 1,482,072
Additions	517,027
Depreciation expense	<u>(459,350)</u>
Capital assets, net of depreciation – June 30, 2018	1,539,749
Additions	525,518
Depreciation expense	<u>(574,243)</u>
Capital assets, net of depreciation – June 30, 2019	<u>\$ 1,491,024</u>

Notes to Financial Statements

The reader is referred to the notes to the financial statements for a more complete understanding of the financial statements of HMS. The notes contain a summary of the significant accounting policies as well as other information essential to a full understanding of the basic financial statements.

Contacting HMS's Financial Management

The financial report is designed to discuss issues that may be material to the operation of HMS. Questions concerning any of the information in this report or requests for additional information should be addressed to Houston Media Source, 410 Roberts Street, Houston, Texas, 77003.

Houston Media Source

Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2019

	GENERAL FUND	ADJUSTMENTS (NOTE 6)	STATEMENT OF NET POSITION
ASSETS:			
Cash (Note 3)	\$ 2,418,546		\$ 2,418,546
Accounts receivable from City of Houston	904,253		904,253
Prepaid expenses and other assets	50,916		50,916
Cash and certificates of deposit restricted for production-related capital assets (Note 3)	3,073,011		3,073,011
Capital assets, net of depreciation (Note 4)	<u> </u>	\$ 1,491,024	<u>1,491,024</u>
TOTAL ASSETS	<u>\$ 6,446,726</u>	<u>\$ 1,491,024</u>	<u>\$ 7,937,750</u>
LIABILITIES:			
Accounts payable and accrued expenses	<u>\$ 330,682</u>		<u>\$ 330,682</u>
TOTAL LIABILITIES	<u>330,682</u>		<u>\$ 330,682</u>
FUND BALANCE:			
Non-spendable prepaid expenses and other assets	50,916	\$ (50,916)	
Restricted for production-related capital assets	3,076,301	(3,076,301)	
Unassigned fund balance	<u>2,988,827</u>	<u>(2,988,827)</u>	
TOTAL FUND BALANCE	<u>6,116,044</u>	<u>(6,116,044)</u>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 6,446,726</u>		
NET POSITION:			
Invested in capital assets		1,491,024	\$ 1,491,024
Restricted for production-related capital assets		3,076,301	3,076,301
Unrestricted		<u>3,039,743</u>	<u>3,039,743</u>
TOTAL NET POSITION		<u>\$ 7,607,068</u>	<u>\$ 7,607,068</u>

See accompanying notes to financial statements.

Houston Media Source

Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2018

	GENERAL FUND	ADJUSTMENTS (NOTE 6)	STATEMENT OF NET POSITION
ASSETS:			
Cash (Note 3)	\$ 2,332,865		\$ 2,332,865
Accounts receivable from City of Houston	917,122		917,122
Prepaid expenses and other assets	42,632		42,632
Cash and certificates of deposit restricted for production-related capital assets (Note 3)	2,966,435		2,966,435
Capital assets, net of depreciation (Note 4)		<u>\$ 1,539,749</u>	<u>1,539,749</u>
TOTAL ASSETS	<u>\$ 6,259,054</u>	<u>\$ 1,539,749</u>	<u>\$ 7,798,803</u>
LIABILITIES:			
Accounts payable and accrued expenses	<u>\$ 296,007</u>		<u>\$ 296,007</u>
TOTAL LIABILITIES	<u>296,007</u>		<u>\$ 296,007</u>
FUND BALANCE:			
Non-spendable prepaid expenses and other assets	42,632	\$ (42,632)	
Restricted for production-related capital assets	3,007,678	(3,007,678)	
Unassigned fund balance	<u>2,912,737</u>	<u>(2,912,737)</u>	
TOTAL FUND BALANCE	<u>5,963,047</u>	<u>(5,963,047)</u>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 6,259,054</u>		
NET POSITION:			
Invested in capital assets		1,539,749	\$ 1,539,749
Restricted for production-related capital assets		3,007,678	3,007,678
Unrestricted		<u>2,955,369</u>	<u>2,955,369</u>
TOTAL NET POSITION		<u>\$ 7,502,796</u>	<u>\$ 7,502,796</u>

See accompanying notes to financial statements.

Houston Media Source

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2019

	GENERAL FUND	ADJUSTMENTS (NOTE 6)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Public cable access activities	\$ 939,299	\$ 570,855	\$ 1,510,154
Management and general	318,248	3,388	321,636
Capital expenditures	<u>525,518</u>	<u>(525,518)</u>	<u> </u>
Total expenditures / expenses	<u>1,783,065</u>	<u>48,725</u>	<u>1,831,790</u>
REVENUE:			
Public access revenue received through City of Houston:			
For operations	1,260,003		1,260,003
For production-related capital assets	553,000		553,000
Service fees	85,090		85,090
Interest income	<u>37,969</u>		<u>37,969</u>
Total revenue	<u>1,936,062</u>		<u>1,936,062</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	152,997	(48,725)	104,272
Fund balance / net position, beginning of year	<u>5,963,047</u>	<u>1,539,749</u>	<u>7,502,796</u>
Fund balance / net position, end of year	<u>\$ 6,116,044</u>	<u>\$ 1,491,024</u>	<u>\$ 7,607,068</u>

See accompanying notes to financial statements.

Houston Media Source

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2018

	GENERAL FUND	ADJUSTMENTS (NOTE 6)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Public cable access activities	\$ 932,726	\$ 458,252	\$ 1,390,978
Management and general	310,356	1,098	311,454
Capital expenditures	<u>517,027</u>	<u>(517,027)</u>	<u> </u>
Total expenditures / expenses	<u>1,760,109</u>	<u>(57,677)</u>	<u>1,702,432</u>
REVENUE:			
Public access revenue received through City of Houston:			
For operations	1,319,937		1,319,937
For production-related capital assets	550,000		550,000
Service fees	89,796		89,796
Interest income	<u>17,614</u>		<u>17,614</u>
Total revenue	<u>1,977,347</u>		<u>1,977,347</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	217,238	57,677	274,915
Fund balance / net position, beginning of year	<u>5,745,809</u>	<u>1,482,072</u>	<u>7,227,881</u>
Fund balance / net position, end of year	<u>\$ 5,963,047</u>	<u>\$ 1,539,749</u>	<u>\$ 7,502,796</u>

See accompanying notes to financial statements.

Houston Media Source

Notes to Financial Statements for the years ended June 30, 2019 and 2018

NOTE 1 – ORGANIZATION

Organization – Houston Media Source (HMS) was created in 1986 by the City of Houston (the City) to coordinate and develop all public and educational cable access activities for access to cable television franchises licensed to operate in the City. The Board of Directors is appointed by the Mayor of the City, subject to City Council’s approval. HMS receives funding primarily from the City as an allocation of cable television franchise access fees paid by cable television providers. If HMS were to close operations, all assets would be distributed to the City unless the City directed otherwise.

HMS manages and operates the functions and activities involved in developing, producing and providing public access programming under a contract with the City. The initial three-year contract expired July 1, 2018. However, it was renewed for two successive one-year terms on the same terms and conditions, expiring on July 1, 2020.

HMS’s mission involves three primary services:

- To provide access to a cable television channel to Houston-area residents.
- To provide media education and equipment access to Houston-area residents to enable them to produce original local programming.
- To provide television access to other Houston-area non-profits to bring media education to after-school programs, television exposure to arts organizations, and free publicity for community services on the Community Bulletin Board.

HMS is the only Houston television channel sharing community news, cablecasting programs produced by the citizens of Houston, and promoting Houston’s cultural arts. HMS also provides education and equipment access to Houston-area residents for producing programming aired on HMS Internet Radio.

Federal income tax status – HMS is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB).

Measurement focus and basis of accounting – Measurement focus refers to *what* is being expressed in reporting financial position and performance, that is, *which* resources are being measured. The financial resources measurement focus measures only financial resources while the economic resources measurement focus measures both financial and capital resources. The measurement focus determines *whether* a fund balance sheet or statement of net position reports financial or economic resources. Basis of accounting refers to *when* those resources and commitments and uses of those resources should be recognized. It relates to the timing of the measurements made regardless of the measurement focus applied.

Fund financial statements – Governmental funds in the fund financial statements 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, revenue is recognized when it is measurable and available. *Measurable* means the amount of the transaction is known or reasonably estimable. *Available* refers to amounts collected in the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, generally within 60 days after year end. Expenditures are recognized when the related liability is incurred.

The general fund is used to account for all revenue and expenses applicable to the general operations of HMS that are not required either legally or by governmental accounting standards to be accounted for in another fund.

Governmental funds in the government-wide financial statements are accounted for using the economic resources measurement focus and have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when it is earned and becomes measurable and expenses are recognized in the period incurred.

Capital assets are recognized as expenditures of the general fund and as assets in the government-wide financial statements to the extent the capitalization threshold of \$500 is met. Capital assets are reported at cost or at the estimated fair value at the date of acquisition or donation. Depreciation of capital assets is recognized on a straight-line basis over estimated useful lives of 3 to 15 years on a government-wide basis. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend useful lives are not capitalized.

Fund balance is classified based on the relative strength of spending constraints placed upon the purposes for which resources can be used. *Non-spendable fund balance* includes amounts that are not in spendable form. *Restricted fund balance* can only be used for purposes specified by resource providers. *Unassigned fund balance* is available for any purpose. When both restricted and unassigned fund balance are available for use, it is HMS's policy to use restricted fund balance first.

Net position represents the difference between assets and liabilities. *Invested in capital assets* represents capital assets net of accumulated depreciation. *Restricted net position* can only be used for purposes specified by resource providers. *Unrestricted net position* is available for general use.

Public access revenue received through the City is recognized when HMS is eligible to receive payment under its contract with the City and payments are expected to be collected within 60 days after year end.

Service fees are recognized when services are provided.

Estimates – Management must make estimates and assumptions to prepare 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 revenue, expenditures and expenses. Actual results could vary from the estimates that were used.

Upcoming pronouncement – GASB Statement No. 87, *Leases*, is effective for fiscal year 2021. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the

foundational principle that leases are financings of the right to use an underlying asset. Under the statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government's leasing activities.

NOTE 3 – CASH AND CERTIFICATES OF DEPOSIT

Cash and certificates of deposit consist of the following:

	<u>2019</u>	<u>2018</u>
Demand deposits	\$ 3,423,934	\$ 3,267,886
Certificates of deposit	2,067,223	2,030,143
Cash on hand	<u>400</u>	<u>1,271</u>
Total cash and certificates of deposit	<u>\$ 5,491,557</u>	<u>\$ 5,299,300</u>

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, HMS will be unable to recover deposits. HMS has no formal policy regarding collateralization of demand deposits. The carrying value of demand deposits at June 30, 2019 was \$3,423,934 and the related bank balances were \$3,467,067. Of the bank deposits at June 30, 2019, \$3,217,067 was uninsured and uncollateralized. Certificates of deposit are non-negotiable time deposits with ten banks for less than \$250,000 each and are insured by the Federal Deposit Insurance Corporation.

NOTE 4 – CAPITAL ASSETS

A summary of the activity related to capital assets for the year ended June 30, 2019 is as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>ENDING BALANCE</u>
Depreciable capital assets:				
Production equipment	\$ 2,773,700	\$ 436,976		\$ 3,210,676
Furniture and fixtures	49,842			49,842
Computer equipment	234,441	13,835		248,276
Vehicles	23,442	67,499		90,941
Leasehold improvements	76,639	7,208		83,847
Office equipment	<u>8,855</u>	<u> </u>		<u>8,855</u>
Depreciable capital assets, at cost	<u>3,166,919</u>	<u>525,518</u>		<u>3,692,437</u>
Accumulated depreciation:				
Production equipment	1,403,331	524,833		1,928,164
Furniture and fixtures	19,608	4,702		24,310
Computer equipment	154,986	35,516		190,502
Vehicles	23,442	3,630		27,072
Leasehold improvements	17,753	5,190		22,943
Office equipment	<u>8,050</u>	<u>372</u>		<u>8,422</u>
Total accumulated depreciation	<u>1,627,170</u>	<u>574,243</u>		<u>2,201,413</u>
Capital assets, net of depreciation	<u>\$ 1,539,749</u>	<u>\$ (48,725)</u>	<u>\$ 0</u>	<u>\$ 1,491,024</u>

A summary of the activity related to capital assets for the year ended June 30, 2018 is as follows:

	BEGINNING <u>BALANCE</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	ENDING <u>BALANCE</u>
Depreciable capital assets:				
Production equipment	\$ 2,381,006	\$ 433,322	\$ (40,628)	\$ 2,773,700
Furniture and fixtures	47,702	2,140		49,842
Computer equipment	253,451	69,326	(88,336)	234,441
Vehicles	23,442			23,442
Leasehold improvements	65,108	11,531		76,639
Office equipment	<u>8,147</u>	<u>708</u>		<u>8,855</u>
Depreciable capital assets, at cost	<u>2,778,856</u>	<u>517,027</u>	<u>(128,964)</u>	<u>3,166,919</u>
Accumulated depreciation:				
Production equipment	1,020,983	422,976	(40,628)	1,403,331
Furniture and fixtures	14,542	5,066		19,608
Computer equipment	216,782	26,540	(88,336)	154,986
Vehicles	23,442			23,442
Leasehold improvements	13,257	4,496		17,753
Office equipment	<u>7,778</u>	<u>272</u>		<u>8,050</u>
Total accumulated depreciation	<u>1,296,784</u>	<u>459,350</u>	<u>(128,964)</u>	<u>1,627,170</u>
Capital assets, net of depreciation	<u>\$ 1,482,072</u>	<u>\$ 57,677</u>	<u>\$ 0</u>	<u>\$ 1,539,749</u>

Depreciation expense was charged to governmental functions of HMS as follows:

	<u>2019</u>	<u>2018</u>
Public cable access activities	\$ 570,855	\$ 458,252
Management and general	<u>3,388</u>	<u>1,098</u>
Total depreciation expense of governmental activities	<u>\$ 574,243</u>	<u>\$ 459,350</u>

NOTE 5 – COMMITMENTS AND CONTINGENCIES

HMS leases office space and equipment under noncancelable operating leases. Future minimum lease payments are due as follows:

2020	\$ 185,000
2021	187,496
2022	189,992
2023	<u>15,206</u>
Total	<u>\$ 577,694</u>

Lease expense for the office space was approximately \$199,000 and \$202,000 in 2019 and 2018, respectively. Lease expense for the copy and postage machines was approximately \$10,400 and \$9,100 in 2019 and 2018, respectively.

NOTE 6 – ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

Total fund balances of HMS differ from net position reported in the statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus on HMS's governmental fund balance sheet. The provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, imposed this change in focus.

The adjustments show the differences between the fund financial statements and government-wide financial statements that arise from capital asset transactions and depreciation and the resulting net position. Capital assets are not current financial resources; and therefore, are not reported in the fund balance sheet. Expenditures for capital assets are recognized as they use current financial resources. The statement of activities recognizes the cost of capital assets over estimated useful lives as depreciation expense.
