

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

Financial Statements
and Independent Auditors' Report
for the year ended June 30, 2022

Houston Media Source

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	3
Audited Financial Statements:	
Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2022	7
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2022	8
Notes to Financial Statements for the year ended June 30, 2022	9

Independent Auditors' Report

To the Board of Directors of
Houston Media Source:

Report on the Audit of the Financial Statements

Opinions

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 year ended June 30, 2022 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Houston Media Source as of June 30, 2022, 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Houston Media Source 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 Houston Media Source'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.

Auditors' 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 auditors' 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.

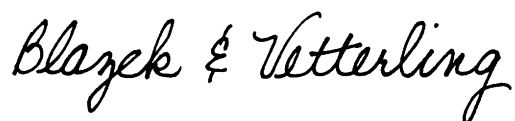
In performing an audit in accordance with generally accepted auditing standards, we:

- 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 Houston Media Source'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 Houston Media Source'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 management's discussion and analysis on pages 3-6 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.



September 20, 2022

**Houston Media Source
Management's Discussion and Analysis
For the year ended June 30, 2022
(unaudited)**

The following discussion and analysis of Houston Media Source's (HMS) financial performance provides an overview of the financial activities for the year ended June 30, 2022. 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, 2022 include:

- HMS's assets include cash of \$4.5 million, \$3.3 million of which is restricted for production-related capital assets.
- HMS adopted Governmental Accounting Standards Board (GASB) Statement No. 87, which resulted in the addition of a \$1.3 million right to use building asset and a \$1.3 million lease liability.
- HMS recognized public access revenue of \$1.7 million.
- HMS invested \$507,000 in additional capital assets, most of which were production-related.
- Expenses exceeded revenue resulting in a decrease in net position of \$507,000.

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>2022</u>	<u>2021</u>
<i>Condensed Statements of Net Position:</i>		
Assets:		
Cash and certificates of deposit	\$ 4,536,234	\$ 4,700,964
Accounts receivable from City of Houston	826,522	858,128
Prepaid expenses and other assets	80,141	84,721
Right to use asset – building	1,136,513	
Capital assets, net of depreciation	<u>1,278,651</u>	<u>1,461,186</u>
Total assets	<u>\$ 7,858,061</u>	<u>\$ 7,104,999</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 217,495	\$ 128,846
Lease liability	<u>1,171,166</u>	
Total liabilities	<u>\$ 1,388,661</u>	<u>\$ 128,846</u>
Net position:		
Invested in capital assets	\$ 1,278,651	\$ 1,461,186
Restricted for production-related capital assets	4,003,873	2,824,016
Unrestricted	<u>1,186,876</u>	<u>2,690,951</u>
Total net position	<u>\$ 6,469,400</u>	<u>\$ 6,976,153</u>
<i>Condensed Statements of Activities:</i>		
Expenses:		
Public cable access activities	\$ 1,703,094	\$ 1,790,993
Management and general	338,519	330,118
Fundraising	126,613	112,542
Interest	<u>56,468</u>	
Total expenses	<u>2,224,694</u>	<u>2,233,653</u>
Revenue:		
Public access revenue received through City of Houston	1,677,575	1,692,892
Service fees and interest income	<u>40,366</u>	<u>30,380</u>
Total revenue	<u>1,717,941</u>	<u>1,723,272</u>
CHANGES IN NET POSITION	(506,753)	(510,381)
Net position, beginning of year	<u>6,976,153</u>	<u>7,486,534</u>
Net position, end of year	<u>\$ 6,469,400</u>	<u>\$ 6,976,153</u>

HMS's assets consist primarily of cash and accounts receivable from the City for public access payments received through the City by cable television providers, and production and office capital assets. Additionally at June 30, 2022, because of the adoption of GASB Statement No. 87, HMS increased assets and liabilities by the present value of aggregate lease payments required by the terms of their leased building. Net position is divided into three components. Invested in capital assets is composed of 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 ongoing pandemic has negatively impacted HMS programs and revenues, particularly with regard to earned income.

The increase in total assets at June 30, 2022 compared to June 30, 2021, primarily is a result of the addition of the \$1.3 million right-to-use asset offset by a decrease in property from current year depreciation of \$850,000 offset by capital additions of \$507,000 that largely represents additions to production equipment and vehicles and an additional decrease in cash from operations. At June 30, 2022, accounts receivable from the City included two quarters of public access collections.

Revenue for both 2022 and 2021 have remained fairly consistent and have been sufficient to cover expenses with the exception of depreciation expense.

A Development Director was hired in January 2020 to conduct fundraising activities on behalf of HMS. The arrival of the pandemic shortly afterward has hindered these efforts, due to changes in philanthropic funding activity by foundations, corporations, and other potential donors. This situation is, however, changing gradually, and improvement is expected going forward.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

Fiscal Year 2022

HMS's investment in capital assets as of June 30, 2022 totals \$2.4 million (net of accumulated depreciation and amortization). This investment in capital assets includes lease assets, production equipment and vehicles, other equipment, furniture and fixtures, leasehold improvements, and other vehicles. The increase in capital assets for the current fiscal year was primarily related to additions of right-to-use asset of \$1.3 million, production equipment and vehicles of \$443,000 and other capital assets of \$64,000 offset by depreciation and amortization of \$850,000. HMS entered into a lease agreement during 2021 for the use of building space, which comprises approximately 47% of total assets.

Fiscal Year 2021

HMS's investment in capital assets as of June 30, 2021 totals \$1.4 million (net of accumulated depreciation). This investment in capital assets includes production equipment and vehicles, other equipment, furniture and fixtures, leasehold improvements, and other vehicles. The decrease in capital assets for the fiscal year was primarily related to depreciation of capital assets of \$660,000, offset by the acquisition of production and vehicles of \$327,000 and other assets of \$65,000.

Long-Term Liabilities

The adoption of GASB Statement No. 87 at July 1, 2021 resulted in a lease liability of approximately \$1.4 million. See additional information concerning the lease agreement in Note 5 to the financial statements.

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 Tom Richards, 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, 2022

	GENERAL FUND	ADJUSTMENTS (NOTE 7)	STATEMENT OF NET POSITION
ASSETS:			
Current assets:			
Cash (Note 4)	\$ 1,219,307		\$ 1,219,307
Accounts receivable from City of Houston	826,522		826,522
Prepaid expenses and other assets	80,141		80,141
Cash restricted for production-related capital assets (Note 4)	3,316,927		3,316,927
Noncurrent assets:			
Capital assets, net of depreciation and amortization (Note 5)	<u> </u>	\$ 2,415,164	<u>2,415,164</u>
TOTAL ASSETS	<u>\$ 5,442,897</u>	<u>\$ 2,415,164</u>	<u>\$ 7,858,061</u>
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued expenses	\$ 217,495		\$ 217,495
Lease liability, current portion (Note 6)		\$ 130,207	130,207
Noncurrent liabilities:			
Lease liability, long-term portion (Note 6)	<u> </u>	1,040,959	<u>1,040,959</u>
TOTAL LIABILITIES	<u>217,495</u>	<u>\$ 1,171,166</u>	<u>\$ 1,388,661</u>
FUND BALANCE:			
Non-spendable prepaid expenses and other assets	80,141		
Restricted for production-related capital assets	4,003,873		
Unassigned fund balance	<u>1,141,388</u>		
TOTAL FUND BALANCE	<u>5,225,402</u>		
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,442,897</u>		
NET POSITION:			
Invested in capital assets, net of related debt		\$ 1,243,998	\$ 1,243,998
Restricted for production-related capital assets			4,003,873
Unrestricted		<u> </u>	<u>1,221,529</u>
TOTAL NET POSITION		<u>\$ 1,243,998</u>	<u>\$ 6,469,400</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, 2022

	GENERAL FUND	ADJUSTMENTS (NOTE 7)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Public cable access activities	\$ 906,078	\$ 797,016	\$ 1,703,094
Management and general	290,154	48,365	338,519
Fundraising	121,800	4,813	126,613
Debt service principal – lease payments	125,795	(125,795)	
Interest expense	56,468		56,468
Capital expenditures	<u>1,804,185</u>	<u>(1,804,185)</u>	<u> </u>
Total expenditures / expenses	<u>3,304,480</u>	<u>(1,079,786)</u>	<u>2,224,694</u>
REVENUE:			
Public access revenue received through City of Houston for production-related capital assets	1,677,575		1,677,575
Service fees	39,005		39,005
Interest income	<u>1,361</u>		<u>1,361</u>
Total revenue	<u>1,717,941</u>		<u>1,717,941</u>
DEFICIENCY OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	(1,586,539)	1,079,786	(506,753)
OTHER FINANCING SOURCES:			
Other financing sources – building lease	<u>1,296,974</u>	<u>(1,296,974)</u>	<u> </u>
CHANGE IN FUND BALANCE / NET POSITION	(289,565)	(217,188)	(506,753)
Fund balance / net position, beginning of year	<u>5,514,967</u>	<u>1,461,186</u>	<u>6,976,153</u>
Fund balance / net position, end of year	<u>\$ 5,225,402</u>	<u>\$ 1,243,998</u>	<u>\$ 6,469,400</u>

See accompanying notes to financial statements.

Houston Media Source

Notes to Financial Statements for the year ended June 30, 2022

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 cease 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 contract provides funding restricted for production-related capital assets and has an expiration date of June 30, 2024. The contract allows for two one-year automatic renewals.

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.

Government 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.

Lease assets and lease liabilities – Lease assets include right-to-use assets from a lease agreement that exceeds one year. At inception, the right-to-use asset value equals the lease liability, which is the present value of future lease payments expected to be made during the lease term, plus any prepayments made for future periods and direct costs necessary to place the asset into service.

Fund balance is classified based on the relative strength of spending constraints placed upon the purposes for which resources can be used as follows:

- *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 the restricted fund balance first.

Net position represents the difference between assets and liabilities. HMS reports categories of net position as follows:

- *Invested in capital assets* represents capital assets reduced by the related outstanding liabilities.
- *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.

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.

NOTE 3 – ADOPTION OF NEW ACCOUNTING STANDARD

Effective July 1, 2021, HMS adopted the amendments of GASB Statement No. 87, *Leases*. 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 the financing 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 governments' leasing activities. Adoption of this amendment did not have an impact on the fund balance as of June 30, 2021.

NOTE 4 – CASH CONCENTRATION

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, 2022 was \$4,536,234 and the related bank balances were \$4,564,103. Of the bank deposits at June 30, 2022, \$4,314,103 was uninsured and uncollateralized.

NOTE 5 – CAPITAL ASSETS

A summary of the activity related to capital assets for the year ended June 30, 2022 is as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>ENDING BALANCE</u>
Depreciable capital assets:				
Lease assets – office space		\$ 1,296,974		\$ 1,296,974
Production equipment and vehicles	\$ 4,455,464	443,238		4,898,702
Furniture and fixtures	142,806	7,364		150,170
Computer equipment	370,730	2,309		373,039
Other vehicles	25,631	20,000		45,631
Leasehold improvements	113,814	31,130		144,944
Office equipment	<u>10,756</u>	<u>3,170</u>		<u>13,926</u>
Depreciable capital assets, at cost	<u>5,119,201</u>	<u>1,804,185</u>		<u>6,923,386</u>
Accumulated depreciation and amortization:				
Lease assets – office space		160,449		160,449
Production equipment and vehicles	3,253,994	622,495		3,876,489
Furniture and fixtures	42,547	14,382		56,929
Computer equipment	291,035	43,466		334,501
Other vehicles	24,682	438		25,120
Leasehold improvements	35,789	8,224		44,013
Office equipment	<u>9,968</u>	<u>741</u>		<u>10,709</u>
Total accumulated depreciation and amortization	<u>3,658,015</u>	<u>850,195</u>		<u>4,508,210</u>
Capital assets, net of depreciation and amortization	<u>\$ 1,461,186</u>	<u>\$ 953,990</u>	<u>\$ 0</u>	<u>\$ 2,415,176</u>

Depreciation and amortization expense was charged to governmental functions of HMS for the year ended June 30, 2022 as follows:

Public cable access activities	\$ 682,776
Management and general	<u>6,970</u>
Total depreciation expense of governmental activities	<u>\$ 689,746</u>

NOTE 6 – LEASES

HMS is party to lease agreement for use of office space that expires July 31, 2029. The lease agreement includes HMS’s commitment to pay a predetermined monthly amount. HMS used a discount rate of 5% to calculate the reported lease liability, which is its estimated borrowing rate.

Reconciliation of the undiscounted cash flows related to the operating lease to the discounted amount reported in the Statement of Net Position as of June 30, 2022:

<u>UNDISCOUNTED CASH FLOWS DUE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2023	\$ 130,207	\$ 55,609	\$ 185,816
2024	140,671	48,861	189,532
2025	151,747	41,576	193,323
2026	163,467	33,723	197,190
2027	175,865	25,268	201,133
2028-2031	<u>409,209</u>	<u>22,663</u>	<u>431,872</u>
Total undiscounted cash flows	<u>\$ 1,171,166</u>	<u>\$ 227,700</u>	1,398,866
Less present value discount			<u>(227,700)</u>
Total present value of lease liabilities			<u>\$ 1,171,166</u>

NOTE 7 – 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 and long-term lease liability transactions and depreciation and amortization and the resulting net position. Capital assets and long-term lease liabilities 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.