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**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

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Report on Financial Statements  
(With Supplemental Material)

For the Year Ended December 31, 2016

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## INDEPENDENT AUDITORS' REPORT

March 13, 2017

Board of Commissioners  
Harris County Emergency Services District No. 16  
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. 16, as of and for the year ended December 31, 2016, 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 Harris County Emergency Services District No. 16, as of December 31, 2016, 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. 16's financial statements as a whole. The Supplementary Information on page 19 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. The 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.

*Breallone & Co., P.C.*

# **HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

## **MANAGEMENT DISCUSSION & ANALYSIS DECEMBER 31, 2016**

Our discussion and analysis of the financial performance of Harris County Emergency Services District No. 16 (the "District") provides an overview of the District's financial activities for the fiscal year ended December 31, 2016. 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 fund 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 \$22,575,869 as of December 31, 2016, as compared to \$18,027,012 at December 31, 2015.

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. 16**

MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2016

(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of Net Position

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current Assets	\$ 19 797 492	\$ 11 143 685
Capital Assets	<u>7 987 402</u>	<u>6 883 327</u>
Total Assets	<u>\$ 27 784 894</u>	<u>\$ 18 027 012</u>
Current Liabilities	\$ 594 972	\$ -
Long Term Liabilities	<u>4 614 053</u>	<u>-</u>
Total Liabilities	<u>5 209 025</u>	<u>-</u>
Net Position		
Net investment in capital assets	2 820 366	6 883 327
Unrestricted	<u>19 755 503</u>	<u>11 143 685</u>
Total Net Position	<u>22 575 869</u>	<u>18 027 012</u>
Total Liabilities and Net Position	<u>\$ 27 784 894</u>	<u>\$ 18 027 012</u>

The following table provides a comparison of the District's operations for the years ended December 31, 2016 and December 31, 2015. The District increased its net position by \$4,548,857 accounting for a 25.2% growth in net position.

Summary of Changes in Net Position

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Revenues		
Property Taxes	\$ 6 417 066	\$ 6 277 479
Sales Tax Revenues	4 128 479	877 037
Penalty and Interest	57 275	45 140
Interest on Temporary Investments	19 040	12 008
Rental and Lease Income	8 419	8 419
Miscellaneous Income	<u>36 749</u>	<u>24 558</u>
Total Revenues	<u>10 667 028</u>	<u>7 244 641</u>
Expenses		
Depreciation	\$ 629 235	\$ 328 639
Interest and Fees	80 455	-
Expenses for Services	<u>5 408 481</u>	<u>4 346 954</u>
Total Expenses	<u>6 118 171</u>	<u>4 675 593</u>
Change in Net Position	4 548 857	2 569 048
Net Position, Beginning of Year	<u>18 027 012</u>	<u>15 457 964</u>
Net Position, End of Year	<u>\$ 22 575 869</u>	<u>\$ 18 027 012</u>

# HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

## MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2016

(Continued)

### FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's fund balances as of the end of the fiscal years ended December 31, 2016 and December 31, 2015 were \$16,478,384 and \$6,680,954, respectively, an increase of \$9,797,430 from the prior year.

### 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 two governmental fund types. The General Fund accounts for property tax revenues, sales tax revenues, costs, general expenditures, and resources not accounted for in another fund. The Capital Projects Fund accounts for financial resources designated to construct or acquire capital facilities and improvements. Such resources are derived principally from proceeds of debt.

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 adjustments 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 AND CAPITAL FUND BUDGETARY HIGHLIGHTS

The Board of Commissioners did not amend the budget during the fiscal year. Actual excess of revenues over expenditures were \$7,347,800 more than the budgeted deficiency of revenues over expenditures because: (1) the District includes penalties and interest on property tax collections in the budget; however, amount actually collected varies, (2) revenues were budgeted on collections at 100% with no change in property values; (3) property values were adjusted on the tax roll post approval of 2016 budget, and (4) the sales tax revenue was not included in the budget. In addition, some budgeted expenses were greater than expected. Collection fees paid to the tax assessor were not included in the budget, and the capital expenditures were less than expected.

**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

**MANAGEMENT DISCUSSION & ANALYSIS  
DECEMBER 31, 2016  
(Continued)**

**CAPITAL ASSETS AND RELATED DEBT**

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Land	\$ 2 447 750	\$ 2 312 750
Construction in Progress	95 332	-
Capital Assets, Net of Depreciation	<u>5 444 320</u>	<u>4 570 577</u>
 Total Assets	 <u>\$ 7 987 402</u>	 <u>\$ 6 883 327</u>

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2016 are summarized as follows:

Long Term Debt at Beginning of Year	\$ -
Proceeds	5 348 524
Retirement of Principal	<u>( 181 488)</u>
Long Term Debt, End of Year	<u>\$ 5 167 036</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 Harris County Emergency Services District No. 16, 16810 Squyres Rd, Klein, Texas 77379.



**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET  
DECEMBER 31, 2016**

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<u>ASSETS</u>					
Cash and Temporary Investments	\$ 7 775 349	\$ 3 948 285	\$ 11 723 634	\$ -	\$ 11 723 634
Certificates of Deposit	1 815 685	-	1 815 685	-	1 815 685
Property Taxes Receivable	3 277 119	-	3 277 119	-	3 277 119
Due From Tax Assessor	2 189 094	-	2 189 094	-	2 189 094
Interest Receivable	1 406	-	1 406	-	1 406
Sales Tax Receivable	736 948	-	736 948	-	736 948
Prepaid Expenses	53 606	-	53 606	-	53 606
Capital Assets					
Buildings (net of Accumulated Depreciation of \$1,802,581)	-	-	-	3 853 736	3 853 736
Equipment (net of Accumulated Depreciation of \$410,152)	-	-	-	1 590 584	1 590 584
Construction in Progress	-	-	-	95 332	95 332
Land	-	-	-	2 447 750	2 447 750
Total Assets	<u>\$ 15 849 207</u>	<u>\$ 3 948 285</u>	<u>\$ 19 797 492</u>	<u>\$ 7 987 402</u>	<u>\$ 27 784 894</u>
<u>LIABILITIES</u>					
Accounts Payable	\$ -	\$ 35 263	\$ 35 263	\$ -	\$ 35 263
Retainage Payable	-	6 726	6 726	-	6 726
Long Term Liabilities					
Due within One Year	-	-	-	552 983	552 983
Due after One Year	-	-	-	4 614 053	4 614 053
Total Liabilities	-	<u>41 989</u>	<u>41 989</u>	<u>5 167 036</u>	<u>5 209 025</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Unavailable Tax Revenues	<u>3 277 119</u>	<u>-</u>	<u>3 277 119</u>	<u>(3 277 119)</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>3 277 119</u>	<u>-</u>	<u>3 277 119</u>	<u>(3 277 119)</u>	<u>-</u>
<u>FUND BALANCE/NET POSITION</u>					
Unassigned Fund Balance	<u>12 572 088</u>	<u>3 906 296</u>	<u>16 478 384</u>	<u>(16 478 384)</u>	<u>-</u>
Total Fund Balance	<u>12 572 088</u>	<u>3 906 296</u>	<u>16 478 384</u>	<u>(16 478 384)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 15 849 207</u>	<u>\$ 3 948 285</u>	<u>\$ 19 797 492</u>		
Net Investment in Capital Assets				2 820 366	2 820 366
Unrestricted				19 755 503	19 755 503
Total Net Position				<u>22 575 869</u>	<u>22 575 869</u>
Total Liabilities, Deferred Inflows of Resources and Net Position				<u>\$ 7 987 402</u>	<u>\$ 27 784 894</u>

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

**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b><u>REVENUES</u></b>					
Property Tax Revenues	\$ 7 602 678	\$ -	\$ 7 602 678	\$ (1 185 612)	\$ 6 417 066
Sales Tax Revenues	4 128 479	-	4 128 479	-	4 128 479
Penalty and Interest Revenues	57 275	-	57 275	-	57 275
Interest on Temporary Investments	17 322	1 718	19 040	-	19 040
Rental and Lease Income	8 419	-	8 419	-	8 419
Miscellaneous Income	36 749	-	36 749	-	36 749
Total Revenues	<u>11 850 922</u>	<u>1 718</u>	<u>11 852 640</u>	<u>(1 185 612)</u>	<u>10 667 028</u>
<b><u>EXPENDITURES/EXPENSES</u></b>					
Operating Expenses					
Emergency Services	4 312 627	-	4 312 627	-	4 312 627
Appraisal District Fees	48 098	-	48 098	-	48 098
Rents and Leases	13 871	-	13 871	-	13 871
Bookkeeping Fees	9 000	-	9 000	-	9 000
Collection Fees	81 481	-	81 481	-	81 481
District Miscellaneous Expenses	11 697	90	11 787	-	11 787
Insurance	31 298	-	31 298	-	31 298
Legal Notices and Filing Fees	2 802	-	2 802	-	2 802
Office Expense	1 922	-	1 922	-	1 922
Professional Services	499 922	-	499 922	-	499 922
Repairs and Maintenance	58 408	-	58 408	-	58 408
Election Expense	3 300	-	3 300	-	3 300
Firefighting Tools and Equipment	333 965	-	333 965	-	333 965
Capital Outlay	1 637 978	95 332	1 733 310	(1 733 310)	-
Debt Service					
Loan Expenses	53 500	-	53 500	-	53 500
Note Principal	181 488	-	181 488	(1 181 488)	-
Note Interest	26 955	-	26 955	-	26 955
Depreciation	-	-	-	629 235	629 235
Total Expenditures/Expenses	<u>7 308 312</u>	<u>95 422</u>	<u>7 403 734</u>	<u>(1 285 563)</u>	<u>6 118 171</u>
Excess(Deficiency) of Revenues over Expenses before other items	4 542 610	( 93 704)	4 448 906	99 951	
Note Proceeds	1 348 524	4 000 000	5 348 524	(5 348 524)	-
Excess(Deficiency) of Revenues over Expenses	5 891 134	3 906 296	9 797 430	(5 248 573)	
Change in Net Position					4 548 857
Fund Balance/Net Position					
Beginning of Year	6 680 954	-	6 680 954	11 346 058	18 027 012
End of Year	<u>\$ 12 572 088</u>	<u>\$ 3 906 296</u>	<u>\$ 16 478 384</u>	<u>\$ 6 097 485</u>	<u>\$ 22 575 869</u>

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

## HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

#### NOTE (1) SIGNIFICANT ACCOUNTING POLICIES

Harris County Rural Fire Prevention District No. 16 (District) was created after a public election held January 28, 1984, under the provision of Section 48-d, Article III of the Constitution of Texas. The Board of Commissioners held its first meeting on March 3, 1984. In October 2003, the District converted to Harris County Emergency Services District No. 16, pursuant to Texas Senate Bill 1021. The District was established to provide operating funds for the contracting of emergency services to a portion of northwest Harris County.

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 years 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. Capital Project Funds

Capital Projects Fund – To account for financial resources designated to construct or acquire capital facilities and improvements. Such resources are derived principally from proceeds of debt.

##### c. 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 place on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

## HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 (Continued)

#### NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### b. Fund Balances

- Non-spendable 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 commissioners or by an official or body to which the board of commissioners 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 - To indicate the funds restricted within the General Fund for the purposes of contingencies or emergencies. The board must approve any change 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, 2016. 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 revenues and expenditures 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. 16**

NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016  
 (Continued)

NOTE (1) 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

For purposes of reporting, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

F. 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.

G. 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 of the following:

Total Fund Balance at December 31, 2016	\$ 16 478 384
Capital assets used in governmental activities are not financial and are not reported in the funds	7 987 402
Long term debt obligations are not reported in the funds	(5 167 036)
Conversion of property tax assessments to full accrual basis	<u>3 277 119</u>
Total Net Position at December 31, 2016	<u>\$ 22 575 869</u>

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Change in fund balance	\$ 9 797 430
Governmental funds report capital outlays as expenditures. However, for government-wide financial 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.	1 104 075
Note proceeds are not reported in the funds	(5 348 524)
Principal payments on debt are reported as expenditures in the funds. However, they do not affect net position.	181 488
Conversion of property tax assessments to full accrual basis	<u>(1 185 612)</u>
Change in net position of governmental activities	<u>\$ 4 548 857</u>

**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

I. CAPITAL ASSETS AND DEPRECIATION

Capital assets are valued at historical cost and depreciated over their estimated useful lives, excluding salvage value. Donated capital assets are valued at the estimated fair value at the date of donation. Interest for purchase of capital items is expensed. Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the Statement of Net Position and Governmental Funds Balance Sheet. Depreciation is provided over the estimated useful lives using the straight-line method. The useful lives range from 5 to 20 years.

NOTE (2) EMERGENCY SERVICES

In January of each year, the District renews its agreement with the Klein Volunteer Fire Department (the Department) to provide fire protection and prevention services to the residents of the District. This agreement automatically renews annually, unless either part informs the other of intent to cancel at least ninety (90) days prior to the expiration of the term of the agreement. The District agrees to pay to the Department its portion of the Department's annual budget, which is to be reviewed and accepted by the District each year. Funds for services are to be paid monthly. The Department may submit for the District's consideration, requests for additional funds to assist with unexpected expenditures. The District has not agreed to pay to the Department more funds than it receives from its tax collections less its administrative costs. For the year ended December 31, 2016, \$4,312,627 was paid to the Department. Separate audited financial statements of Klein Volunteer Fire Department are available as of December 31, 2016.

NOTE (3) AD VALOREM TAX

During the year ended December 31, 2016, the District levied an ad valorem tax at the rate of \$.05000 per \$100 of assessed valuation, which resulted in a tax levy of \$6,386,847 on the taxable valuation of \$12,773,693,028 for the 2016 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 September 1 of the prior year, or as soon after September 1 as it took to set the tax rate. The lien date was January 1 of the subsequent year.

In the governmental funds, 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, 2016, include collections during the current period or within 60 days of year-end related to the 2016 and prior years' tax levies.

The District is included in the extra-territorial jurisdiction of the City of Houston and, as such, is subject to possible annexation in the future.

NOTE (4) SALES TAX REVENUES

On May 9, 2015, the residents of the District authorized the District to impose a 1% sales tax where eligible within the District. During the year end December 31, 2016, the District earned \$4,128,479 in sales tax revenue.

## HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(Continued)

#### NOTE (5) DEPOSITS AND INVESTMENTS

Deposits were with contracted depository banks in a checking account, a money market savings account, and certificates of deposit during the year.

The District used BBVA Compass Bank as contracted depository bank. The largest cash balance during the year was \$11,245,633, which occurred in December 2016.

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. The District held investments in the amount of \$1,815,685 at December 31, in certificate of deposit accounts. The District holds investments at December 31, 2016, 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., 14<sup>th</sup> Floor, Houston, Texas 77002. The District held investments in TexPool with a total carrying value and market value of \$84,205 at December 31, 2016.

Balances during the year were secured by FDIC coverage and additional securities pledged by the financial institutions.

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, 2016.

#### NOTE (6) INTERLOCAL AGREEMENT

On April 11, 2011, the District entered into a lease agreement with Harris County Emergency Services District No. 11 (ESD 11). The lease agreement is for lease of District owned ground and surface estate of a 0.7358 acre parcel of real property. ESD 11 will lease the real property for construction, maintenance, and operation of an emergency medical services facility. ESD 11 agrees to lease the real property for a term commencing on April 11, 2011, and ending on April 11, 2031, with the payment as rental for the use and occupancy of the real property the sum of dollars per year based on the total area required by ESD 11 multiplied by \$0.35 per square foot, due on the initial commencement construction and thereafter on each anniversary date thereof. Upon termination of the lease, ESD 11 has the option of removing the emergency services facilities at its sole cost or requesting the District to purchase at fair market value. On December 20, 2012, both parties signed an amendment to the agreement to change the amount of total area required by ESD 11. Future expected lease income is as follows:

**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016  
 (Continued)

NOTE (6) INTERLOCAL AGREEMENT (Continued)

<u>Year Ending</u>	<u>Amount</u>
2017	\$ 8 419
2018	8 419
2019	8 419
2020	8 419
2021	8 419
Thereafter	<u>78 577</u>
Total	<u>\$ 120 672</u>

NOTE (7) CHANGES IN CAPITAL ASSETS

The changes in the capital assets are as follows:

	<u>Beginning of Year</u>	<u>Acquisitions (Disposals)</u>	<u>Depreciation Expense</u>	<u>End of Year</u>
Land	\$ 2 312 750	\$ 135 000	\$ -	\$ 2 447 750
Buildings	5 656 317	-	-	5 656 317
Equipment	497 758	1 502 978	-	2 000 736
Less: Accumulated Depreciation	<u>(1 583 498)</u>	<u>-</u>	<u>( 629 235)</u>	<u>(2 212 733)</u>
Total Net Book Value	<u>4 570 577</u>	<u>1 502 978</u>	<u>( 629 235)</u>	<u>5 444 320</u>
Construction in Progress	<u>-</u>	<u>95 332</u>	<u>-</u>	<u>95 332</u>
Totals	<u>\$ 6 883 327</u>	<u>\$ 1 733 310</u>	<u>\$ ( 629 235)</u>	<u>\$ 7 987 402</u>

During the year ended December 31, 2016, the District capitalized a parcel of land, two pumper trucks, Polaris watercraft, Ford F150, and a Ford F350. Construction in progress relates to the construction of station no. 8. The District has a contract for station no. 8 construction for \$3,619,825.

NOTE (8) NOTES PAYABLE

On December 28, 2015, the District entered into a note with Trustmark National Bank at a face value of \$1,348,524 bearing an interest rate of 2.01%. The District used the proceeds to purchase two pumper trucks. The assets of the District act as collateral for the note. Seven principal and interest payments of \$208,433 each are due annually beginning December 28, 2016. During the year ended December 31, 2016, the District paid principal and interest of \$181,488 and \$26,955, respectively. The balance due at December 31, 2016 was \$1,167,036.

On July 28, 2016, the District entered into a note with JPMorgan Chase Bank at face value of \$4,000,000 bearing an interest rate of 1.65%. This note is secured by the District's sales tax revenue. The District will use the proceeds of the note for construction of a new fire station and related equipment. One principal and two interest payments are due annually beginning February 15, 2017. The balance due at December 31, 2016 was \$4,000,000.

NOTE (8) NOTES PAYABLE (Continued)



**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)

Future maturities of the balances outstanding are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2017	\$ 552 983
December 31, 2018	564 701
December 31, 2019	576 494
December 31, 2020	586 363
December 31, 2021	597 310
Thereafter	<u>2 289 185</u>
Total Amount	<u>\$ 5 167 036</u>

NOTE (9) SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 13, 2017, (the date the financial statements were available to be issued), and conclude that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND  
ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
<b><u>REVENUES</u></b>			
Property Tax Revenues	\$ 7 602 678	\$ 6 327 915	\$ 1 274 763
Sales Tax Revenues	4 128 479	-	4 128 479
Penalty and Interest Revenues	57 275	15 000	42 275
Interest on Temporary Investments	19 040	10 000	9 040
Rental and Lease Income	8 419	8 419	-
Miscellaneous Income	<u>36 749</u>	<u>-</u>	<u>36 749</u>
Total Revenues	<u>11 852 640</u>	<u>6 361 334</u>	<u>5 491 306</u>
<b><u>EXPENDITURES/EXPENSES</u></b>			
Operating Expenses			
Emergency Services	4 312 627	4 309 428	( 3 199)
Appraisal District Fees	48 098	48 000	( 98)
Rents and Leases	13 871	-	( 13 871)
Bookkeeping Fees	9 000	8 500	( 500)
Collection Fees	81 481	-	( 81 481)
District Miscellaneous Expenses	11 787	15 000	3 213
Election Expense	3 300	45 000	41 700
Insurance	31 298	27 000	( 4 298)
Legal Notices and Filing Fees	2 802	-	( 2 802)
Repairs and Maintenance	58 408	-	( 58 408)
Professional Services	499 922	136 600	( 363 322)
Office Expense	1 922	-	( 1 922)
Firefighting Tools and Equipment	333 965	-	( 333 965)
Capital Outlay	1 733 310	4 670 700	2 937 390
Debt Service			
Loan Expenses	53 500	-	( 53 500)
Note Principal	181 488	-	( 181 488)
Note Interest	<u>26 955</u>	<u>-</u>	<u>( 26 955)</u>
Total Expenditures/Expenses	<u>7 403 734</u>	<u>9 260 228</u>	<u>1 856 494</u>
Excess(Deficiency) of Revenues over Expenditures	4 448 906	(2 898 894)	7 347 800
Note Proceeds	5 348 524	-	5 348 524
Beginning of year	<u>6 680 954</u>	<u>6 680 954</u>	<u>-</u>
End of year	<u>\$ 16 478 384</u>	<u>\$ 3 782 060</u>	<u>\$ 12 696 324</u>

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

**SUPPLEMENTARY INFORMATION**

**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

**SCHEDULE OF TEMPORARY INVESTMENTS  
DECEMBER 31, 2016**

**CERTIFICATES OF DEPOSIT**

<u>Bank</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>
Plains State Bank	04/10/17	0.30%	\$ 242 043
Allegiance Bank	04/10/17	0.50%	104 155
Spirit of Texas Bank	04/11/17	0.40%	243 246
Texan Bank	10/13/17	0.75%	101 907
Texas Capital Bank	04/11/17	0.35%	241 864
Green Bank	04/10/17	0.40%	131 003
Third Coast Bank	04/10/17	0.35%	103 424
Preferred Bank	04/10/17	0.25%	241 974
Community Bank of Texas	04/05/17	0.20%	142 432
Allegiance Bank	05/16/17	0.50%	132 309
Central Bank	05/16/17	0.35%	<u>131 329</u>
		<b>TOTAL</b>	<b><u>\$ 1 815 685</u></b>

See Independent Auditors' Report.

**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

ANALYSIS OF TAXES RECEIVABLE  
DECEMBER 31, 2016

Taxes Receivable - Beginning of Year	\$ 4 462 731
2016 Tax Roll	6 386 847
Adjustments to prior year taxes	<u>30 219</u>
Total to be Accounted for	<u>10 879 797</u>
Tax Collections Received from Tax Collector	5 413 584
Balance Held by Tax Collector, December 31, 2016	<u>2 189 094</u>
Total Tax Collections	<u>7 602 678</u>
Taxes Receivable - End of Year	<u><u>\$ 3 277 119</u></u>

Assessed Valuation Summary

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Property Valuations					
Real Property	\$12 084 331 787	\$ 11 929 506 087	\$ 10 575 814 427	\$ 9 398 036 145	\$ 8 891 645 230
Personal Property	<u>689 361 241</u>	<u>612 142 448</u>	<u>630 490 175</u>	<u>622 074 689</u>	<u>589 413 581</u>
Total Property Valuations	<u>\$12 773 693 028</u>	<u>\$ 12 541 648 535</u>	<u>\$ 11 206 304 602</u>	<u>\$10 020 110 834</u>	<u>\$ 9 481 058 811</u>
Tax Rate per \$100 Valuations	<u>\$ 0.05000</u>	<u>\$ 0.05000</u>	<u>\$ 0.04917</u>	<u>\$ 0.04921</u>	<u>\$ 0.05000</u>
Tax Rolls	<u>\$ 6 386 847</u>	<u>\$ 6 270 824</u>	<u>\$ 5 510 140</u>	<u>\$ 4 930 897</u>	<u>\$ 4 740 529</u>
Percent of Taxes Collected to Taxes Levied	<u>50.6%</u>	<u>99.4%</u>	<u>99.7%</u>	<u>99.7%</u>	<u>99.8%</u>

See Independent Auditors' Report.

**HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16**

**BOARD MEMBERS AND CONSULTANTS**

DECEMBER 31, 2016

District Mailing Address: Harris County Emergency Services District No. 16  
16810 Squyres Rd  
Klein, Texas 77379

District Telephone Number: 281-376-4449

<u>Names</u>	<u>Term of Office</u>	<u>Fees Paid *</u> <u>FYE 12/31/16</u>	<u>Expense</u> <u>Reimbursements</u> <u>FYE 12/31/16</u>	<u>Title at</u> <u>Year End</u>
<u>Board Members</u>				
Robert Farrell	06/14 - 05/18 (Elected)	\$ -	\$ -	President
Herbert L. Marker	06/14 - 05/18 (Elected)	\$ -	\$ -	Assistant Treasurer
Steve Falkner	06/16 - 05/20 (Elected)	\$ -	\$ 809	Secretary
Robert W. Carson	06/16 -05/20 (Elected)	\$ -	\$ 35	Treasurer
Michael Pate	06/16 - 05/20 (Elected)	\$ -	\$ 1 250	Commissioner
<u>Consultants</u>				
Breedlove & Co., P.C.		\$ 9 826	\$ -	Auditors
Coveler & Katz, P.C.		\$ 84 799	\$ -	Legal Counsel
Harris County Appraisal District		\$ 48 098	\$ -	Appraisal District
Municipal Information Services		\$ 2 600	\$ -	Economist
Myrtle Cruz, Inc.		\$ 9 000	\$ 4 621	Bookkeeper
BD Realty Advisors, LLC		\$ 28 375	\$ -	Real Estate Advisors

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

See Independent Auditors' Report.