
HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

Report on Financial Statements
(With Supplemental Material)

For the Year Ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

April 9, 2018

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, 2017, 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, 2017, 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Breallone & Co., P.C.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS DECEMBER 31, 2017

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, 2017. 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 \$29,201,396 as of December 31, 2017, as compared to \$22,575,869 at December 31, 2016.

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, 2017

(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of Net Position

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current Assets	\$ 19 567 046	\$ 19 797 492
Capital Assets	<u>18 959 356</u>	<u>7 987 402</u>
Total Assets	<u>\$ 38 526 402</u>	<u>\$ 27 784 894</u>
Current Liabilities	\$ 2 050 585	\$ 594 972
Long Term Liabilities	<u>7 274 421</u>	<u>4 614 053</u>
Total Liabilities	<u>9 325 006</u>	<u>5 209 025</u>
Net Position		
Net investment in capital assets	10 623 984	2 820 366
Unrestricted	<u>18 577 412</u>	<u>19 755 503</u>
Total Net Position	<u>29 201 396</u>	<u>22 575 869</u>
Total Liabilities and Net Position	<u>\$ 38 526 402</u>	<u>\$ 27 784 894</u>

The following table provides a comparison of the District's operations for the years ended December 31, 2017 and December 31, 2016. The District increased its net position by \$6,625,527 accounting for a 29.3% growth in net position.

Summary of Changes in Net Position

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Revenues		
Property Taxes	\$ 6 631 248	\$ 6 417 066
Sales Tax Revenues	5 991 202	4 128 479
Penalty and Interest	52 678	57 275
Interest on Temporary Investments	43 071	19 040
Rental and Lease Income	8 419	8 419
Miscellaneous Income	<u>29 494</u>	<u>36 749</u>
Total Revenues	<u>12 756 112</u>	<u>10 667 028</u>
Expenses		
Depreciation	\$ 2 551 903	\$ 629 235
Interest and Fees	92 577	80 455
Expenses for Services	<u>7 362 947</u>	<u>5 408 481</u>
Total Expenses	<u>10 007 427</u>	<u>6 118 171</u>
Revenues over Expenses before other items	2 748 685	4 548 857
Contributed Capital Assets from Klein VFD	3 876 842	-
Net Position, Beginning of Year	<u>22 575 869</u>	<u>18 027 012</u>
Net Position, End of Year	<u>\$ 29 201 396</u>	<u>\$ 22 575 869</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2017

(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, 2017 and December 31, 2016 were \$15,374,145 and \$16,478,384, respectively, a decrease of \$1,104,239 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 \$156,672 less than the budgeted deficiency of revenues over expenditures because: (1) the District includes penalties and interest on property tax collections in the budget; however, the amount actually collected varies, (2) sales tax revenues were greater than expected, and (3) capital outlay and professional services were greater than expected. Overall, budgeted revenues and expenses were greater than expected by similar amounts. Loan interest expenses and engineering fees were not included in the budget, and the capital expenditures were higher than expected.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**MANAGEMENT DISCUSSION & ANALYSIS
DECEMBER 31, 2017
(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, 2017</u>	<u>December 31, 2016</u>
Land	\$ 2 638 596	\$ 2 447 750
Construction in Progress	4 116 637	95 332
Capital Assets, Net of Depreciation	<u>12 204 123</u>	<u>5 444 320</u>
Total Assets	<u>\$ 18 959 356</u>	<u>\$ 7 987 402</u>

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2017 are summarized as follows:

Long Term Debt at Beginning of Year	\$ 5 167 036
Proceeds	3 721 319
Retirement of Principal	<u>(552 983)</u>
Long Term Debt, End of Year	<u>\$ 8 335 372</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, 2017**

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<u>ASSETS</u>					
Cash and Temporary Investments	\$ 13 316 321	\$ 332 621	\$ 13 648 942	\$ -	\$ 13 648 942
Certificates of Deposit	987 433	-	987 433	-	987 433
Property Taxes Receivable	3 203 267	-	3 203 267	-	3 203 267
Due From Tax Assessor	566 918	-	566 918	-	566 918
Interest Receivable	5 564	-	5 564	-	5 564
Sales Tax Receivable	1 149 512	-	1 149 512	-	1 149 512
Inter-fund Receivables	79 865	-	79 865	(79 865)	-
Prepaid Expenses	3 850	1 560	5 410	-	5 410
Capital Assets					
Buildings (net of Accumulated Depreciation of \$4,265,876)	-	-	-	8 338 431	8 338 431
Equipment (net of Accumulated Depreciation of \$14,263,911)	-	-	-	3 865 692	3 865 692
Construction in Progress	-	-	-	4 116 637	4 116 637
Land	-	-	-	2 638 596	2 638 596
Total Assets	<u>\$ 19 312 730</u>	<u>\$ 334 181</u>	<u>\$ 19 646 911</u>	<u>\$ 18 879 491</u>	<u>\$ 38 526 402</u>
<u>LIABILITIES</u>					
Accounts Payable	\$ 367 558	\$ 242 706	\$ 610 264	\$ -	\$ 610 264
Retainage Payable	29 002	350 368	379 370	-	379 370
Inter-fund Payables	-	79 865	79 865	(79 865)	-
Long Term Liabilities					
Due within One Year	-	-	-	1 060 951	1 060 951
Due after One Year	-	-	-	7 274 421	7 274 421
Total Liabilities	<u>396 560</u>	<u>672 939</u>	<u>1 069 499</u>	<u>8 255 507</u>	<u>9 325 006</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Unavailable Tax Revenues	<u>3 203 267</u>	<u>-</u>	<u>3 203 267</u>	<u>(3 203 267)</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>3 203 267</u>	<u>-</u>	<u>3 203 267</u>	<u>(3 203 267)</u>	<u>-</u>
<u>FUND BALANCE/NET POSITION</u>					
Unassigned Fund Balance	<u>15 712 903</u>	<u>(338 758)</u>	<u>15 374 145</u>	<u>(15 374 145)</u>	<u>-</u>
Total Fund Balance	<u>15 712 903</u>	<u>(338 758)</u>	<u>15 374 145</u>	<u>(15 374 145)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 19 312 730</u>	<u>\$ 334 181</u>	<u>\$ 19 646 911</u>		
Net Investment in Capital Assets				10 623 984	10 623 984
Unrestricted				<u>18 577 412</u>	<u>18 577 412</u>
Total Net Position				<u>29 201 396</u>	<u>29 201 396</u>
Total Liabilities, Deferred Inflows of Resources and Net Position				<u>\$ 18 879 491</u>	<u>\$ 38 526 402</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, 2017**

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<u>REVENUES</u>					
Property Tax Revenues	\$ 6 705 100	\$ -	\$ 6 705 100	\$ (73 852)	\$ 6 631 248
Sales Tax Revenues	5 991 202	-	5 991 202	-	5 991 202
Penalty and Interest Revenues	52 678	-	52 678	-	52 678
Interest on Temporary Investments	39 481	3 590	43 071	-	43 071
Rental and Lease Income	8 419	-	8 419	-	8 419
Miscellaneous Income	29 494	-	29 494	-	29 494
Total Revenues	<u>12 826 374</u>	<u>3 590</u>	<u>12 829 964</u>	<u>(73 852)</u>	<u>12 756 112</u>
<u>EXPENDITURES/EXPENSES</u>					
Operating Expenses					
Emergency Services	5 026 553	-	5 026 553	-	5 026 553
Appraisal District Fees	35 582	-	35 582	-	35 582
Rents and Leases	9 447	-	9 447	-	9 447
Bookkeeping Fees	9 000	-	9 000	-	9 000
Collection Fees	68 501	-	68 501	-	68 501
District Miscellaneous Expenses	6 330	5 016	11 346	-	11 346
Insurance	32 674	7 837	40 511	-	40 511
Legal Notices and Filing Fees	1 191	-	1 191	-	1 191
Office Expense	2 012	-	2 012	-	2 012
Professional Services	1 228 939	196 918	1 425 857	-	1 425 857
Repairs and Maintenance	121 582	19 720	141 302	-	141 302
Firefighting Tools and Equipment	506 674	84 971	591 645	-	591 645
Capital Outlay	2 359 514	3 566 182	5 925 696	(5 925 696)	-
Debt Service					
Note Principal	184 983	368 000	552 983	(552 983)	-
Note Interest	92 577	-	92 577	-	92 577
Depreciation	-	-	-	2 551 903	2 551 903
Total Expenditures/Expenses	<u>9 685 559</u>	<u>4 248 644</u>	<u>13 934 203</u>	<u>(3 926 776)</u>	<u>10 007 427</u>
Excess(Deficiency) of Revenues over Expenses before other items	3 140 815	(4 245 054)	(1 104 239)	3 852 924	2 748 685
Contributed Capital Assets from Klein VFD	-	-	-	3 876 842	3 876 842
Excess(Deficiency) of Revenues over Expenses	3 140 815	(4 245 054)	(1 104 239)	1 104 239	
Change in Net Position				6 625 527	6 625 527
Fund Balance/Net Position					
Beginning 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>
End of Year	<u>\$ 15 712 903</u>	<u>\$ (338 758)</u>	<u>\$ 15 374 145</u>	<u>\$ 13 827 251</u>	<u>\$ 29 201 396</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, 2017

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 placed 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, 2017 (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, 2017. 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, 2017
(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, 2017	\$ 15 374 145
Capital assets used in governmental activities are not financial and are not reported in the funds	18 959 356
Long term debt obligations are not reported in the funds	(8 335 372)
Conversion of property tax assessments to full accrual basis	<u>3 203 267</u>
Total Net Position at December 31, 2017	<u>\$ 29 201 396</u>

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

Change in fund balance	\$ (1 104 239)
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.	7 250 635
Principal payments on debt are reported as expenditures in the funds. However, they do not affect net position.	552 983
Conversion of property tax assessments to full accrual basis	<u>(73 852)</u>
Change in net position of governmental activities	<u>\$ 6 625 527</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 (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 25 years.

J. INTER-FUND TRANSACTIONS

Transfers from one fund to another fund are reported as inter-fund receivables and payables if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended. Transfers of residual equities are reported as addition to or deductions from the fund balance of the governmental fund types.

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 party 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, 2017, \$5,026,553 was paid to the Department. Separate audited financial statements of Klein Volunteer Fire Department are available as of December 31, 2017.

The current agreement includes the transfer of all capital assets from the books of the Department to the books of the District. This includes \$3,270,971 in buildings, \$1,603,524 in equipment, \$242,992 in furniture and fixtures and \$12,524,507 in vehicles along with a combined accumulated depreciation of \$13,765,152. The net effect is an increase in net position of \$3,876,842.

NOTE (3) 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, 2017, the District earned \$5,991,202 in sales tax revenue.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 (Continued)

NOTE (4) AD VALOREM TAX

During the year ended December 31, 2017, the District levied an ad valorem tax at the rate of \$.04947 per \$100 of assessed valuation, which resulted in a tax levy of \$6,614,575 on the taxable valuation of \$13,370,881,516 for the 2017 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, 2017, include collections during the current period or within 60 days of year-end related to the 2017 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 (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 \$16,153,986, which occurred in February 2017.

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 \$987,433 at December 31, 2017 in certificate of deposit accounts. The District holds investments at December 31, 2017, in accordance with the Board approved investment policy, in TexPool State Treasury ("TexPool"). In following the Public Funds Collateral Act, TexPool invests the District's funds in obligations of the United States, obligations issued by a public agency that is payable from taxes, revenues, or a combination thereof that has been rated by a nationally recognized rating agency with a rating of not less than A, or any security in which a public entity may invest under the Public Funds Investment Act of 1987. Surety bonds and investment securities are used as collateral to secure both the amount of the deposits with TexPool plus any accrued interest. A separate financial report for TexPool is prepared in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained from TexPool Participant Services, c/o Federated Investors, 1001 Texas Ave., 14th Floor, Houston, Texas 77002. The District held investments in TexPool with a total carrying value and market value of \$922,767 at December 31, 2017.

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 complied with the Act's provisions during the year ended December 31, 2017.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017
 (Continued)

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. ESD 11 will make rental payments for the use and occupancy of the real property 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 on the agreement to change the amount of total area required by ESD 11. Future expected lease income is as follows:

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 8 419
2019	8 419
2020	8 419
2021	8 419
2022	8 419
Thereafter	<u>70 158</u>
Total	<u>\$ 112 253</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	\$ 2 447 750	\$ 190 846	\$ -	\$ 2 638 596
Buildings	5 656 317	4 770 798	-	10 427 115
Equipment	2 000 736	18 306 059	-	20 306 795
Less: Accumulated Depreciation	<u>(2 212 733)</u>	<u>(13 765 151)</u>	<u>(2 551 903)</u>	<u>(18 529 787)</u>
Total Net Book Value	<u>5 444 320</u>	<u>9 311 706</u>	<u>(2 551 903)</u>	<u>12 204 123</u>
Construction in Progress	<u>95 332</u>	<u>4 021 305</u>	<u>-</u>	<u>4 116 637</u>
Totals	<u>\$ 7 987 402</u>	<u>\$ 13 523 857</u>	<u>\$ (2 551 903)</u>	<u>\$ 18 959 356</u>

During the year ended December 31, 2017, the District capitalized two parcels of land, a Rescue One Connector Boat and a generator. Construction in progress relates to the construction of station no. 4 and station no. 8. The District has contracts for station no. 4 and no. 8 construction for \$2,043,516 and \$3,619,825, respectively. Renovations for station no. 2 were substantially completed during 2017. In addition, as mentioned in Note 2, all capital assets were transferred from the books of the Department to the books of the District in 2017.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(Continued)

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. The balance due at January 1, 2017 was \$1,167,036. During the year ended December 31, 2017, the District paid principal and interest of \$184,983 and \$23,460, respectively. The balance due at December 31, 2017 was \$982,053.

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 at January 1, 2017 was \$4,000,000. During the year ended December 31, 2017, the District paid principal and interest of \$368,000 and \$69,117, respectively. The balance due at December 31, 2017 was \$3,632,000.

On March 15, 2017, the District entered into a note with Leasing 2, Inc. at a face value of \$3,721,318 bearing an interest rate of 2.353%. The District used the proceeds to purchase three ladder trucks. The lender retains a security interest in the trucks. Seven principal and interest payments of \$582,821 are due annually beginning March 15, 2018. During the year ended December 31, 2017, the District made no principal and interest payments during the year and the full balance remained due.

Future maturities of the balances outstanding are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2018	\$ 1 060 951
December 31, 2019	1 083 398
December 31, 2020	1 105 196
December 31, 2021	1 128 352
December 31, 2022	1 150 724
Thereafter	<u>2 806 751</u>
Total Amount	<u>\$ 8 335 372</u>

NOTE (9) SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 9, 2018, (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, 2017

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
<u>REVENUES</u>			
Property Tax Revenues	\$ 6 705 100	\$ 6 419 642	\$ 285 458
Sales Tax Revenues	5 991 202	3 600 000	2 391 202
Penalty and Interest Revenues	52 678	15 000	37 678
Interest on Temporary Investments	43 071	10 000	33 071
Rental and Lease Income	8 419	8 419	-
Miscellaneous Income	<u>29 494</u>	<u>-</u>	<u>29 494</u>
Total Revenues	<u>12 829 964</u>	<u>10 053 061</u>	<u>2 776 903</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses			
Emergency Services	5 026 553	5 025 628	(925)
Appraisal District Fees	35 582	48 000	12 418
Rents and Leases	9 447	-	(9 447)
Bookkeeping Fees	9 000	8 500	(500)
Collection Fees	68 501	97 500	28 999
District Miscellaneous Expenses	11 346	15 000	3 654
Insurance	40 511	32 000	(8 511)
Legal Notices and Filing Fees	1 191	-	(1 191)
Repairs and Maintenance	141 302	-	(141 302)
Professional Services	1 425 857	142 600	(1 283 257)
Office Expense	2 012	-	(2 012)
Firefighting Tools and Equipment	591 645	1 191 400	599 755
Capital Outlay	5 925 696	4 440 000	(1 485 696)
Debt Service			
Note Principal	552 983	-	(552 983)
Note Interest	<u>92 577</u>	<u>-</u>	<u>(92 577)</u>
Total Expenditures/Expenses	<u>13 934 203</u>	<u>11 000 628</u>	<u>(2 933 575)</u>
Excess(Deficiency) of Revenues over Expenditures	(1 104 239)	(947 567)	(156 672)
Beginning of year	<u>16 478 384</u>	<u>16 478 384</u>	<u>-</u>
End of year	<u>\$ 15 374 145</u>	<u>\$ 15 530 817</u>	<u>\$ (156 672)</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, 2017**

CERTIFICATES OF DEPOSIT

<u>Bank</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>
Texas Citizens Bank	04/12/18	0.90%	\$ 142 577
Allegiance Bank	04/10/18	1.00%	104 410
Green Bank	04/10/18	0.70%	131 263
Texas Capital Bank	04/11/18	0.83%	242 287
Allegiance Bank	05/16/18	1.00%	132 653
Central Bank	05/16/18	0.80%	131 569
Compass Bank	04/13/18	1.20%	<u>102 674</u>
	TOTAL		<u>\$ 987 433</u>

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**ANALYSIS OF TAXES RECEIVABLE
DECEMBER 31, 2017**

Taxes Receivable - Beginning of Year	\$ 3 277 119
2017 Tax Roll	6 614 575
Adjustments to prior year taxes	<u>16 673</u>
Total to be Accounted for	<u>9 908 367</u>
Tax Collections Received from Tax Collector	6 138 182
Balance Held by Tax Collector, December 31, 2017	<u>566 918</u>
Total Tax Collections	<u>6 705 100</u>
Taxes Receivable - End of Year	<u><u>\$ 3 203 267</u></u>

Assessed Valuation Summary

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Property Valuations					
Real Property	\$12 774 761 285	\$12 084 331 787	\$ 11 929 506 087	\$10 575 814 427	\$ 9 398 036 145
Personal Property	<u>596 120 231</u>	<u>689 361 241</u>	<u>612 142 448</u>	<u>630 490 175</u>	<u>622 074 689</u>
Total Property Valuations	<u><u>\$13 370 881 516</u></u>	<u><u>\$12 773 693 028</u></u>	<u><u>\$ 12 541 648 535</u></u>	<u><u>\$11 206 304 602</u></u>	<u><u>\$10 020 110 834</u></u>
Tax Rate per \$100 Valuations	<u>\$ 0.04947</u>	<u>\$ 0.05000</u>	<u>\$ 0.05000</u>	<u>\$ 0.04917</u>	<u>\$ 0.04921</u>
Tax Rolls	<u>\$ 6 614 575</u>	<u>\$ 6 386 847</u>	<u>\$ 6 270 824</u>	<u>\$ 5 510 140</u>	<u>\$ 4 930 897</u>
Percent of Taxes Collected to Taxes Levied	<u>53.9%</u>	<u>99.1%</u>	<u>99.6%</u>	<u>99.8%</u>	<u>99.8%</u>

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

BOARD MEMBERS AND CONSULTANTS

DECEMBER 31, 2017

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 12/31/17</u>	<u>Expense</u> <u>Reimbursements</u> <u>FYE 12/31/17</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)	\$ -	\$ -	Secretary
Robert W. Carson	06/16 - 05/20 (Elected)	\$ -	\$ -	Treasurer
Michael Pate	06/16 - 05/20 (Elected)	\$ -	\$ 488	Commissioner
<u>Consultants</u>				
Breedlove & Co., P.C.		\$ 10 100	\$ -	Auditors
Coveler & Peeler, P.C.		\$ 74 937	\$ -	Legal Counsel
Harris County Appraisal District		\$ 35 582	\$ -	Appraisal District
Municipal Information Services		\$ 2 600	\$ -	Economist
Myrtle Cruz, Inc.		\$ 9 000	\$ 4 167	Bookkeeper
BD Realty Advisors, LLC		\$ 23 353	\$ -	Real Estate Advisors

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

See Independent Auditors' Report.