
HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

Report on Financial Statements
(With Supplemental Material)

For the Year Ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT

June 8, 2020

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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harris County Emergency Services District No. 16, as of December 31, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Harris County Emergency Service District No. 16's financial statements as a whole. The Supplementary Information on page 18 to 20 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.

Bredalove & Co., P.C.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS DECEMBER 31, 2019

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, 2019. Please read it in conjunction with the District’s financial statements, included in this annual report.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include (1) combined fund financial statements and government-wide financial statements, and (2) notes to the financial statements. The 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 \$34,225,292 as of December 31, 2019, as compared to \$31,091,287 at December 31, 2018.

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, 2019

(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of Net Position

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current Assets	\$ 19 865 015	\$ 19 718 330
Capital Assets	<u>27 772 557</u>	<u>26 012 668</u>
Total Assets	<u>\$ 47 637 572</u>	<u>\$ 45 730 998</u>
Current Liabilities	\$ 2 994 302	\$ 2 524 688
Long Term Liabilities	<u>10 417 978</u>	<u>12 115 023</u>
Total Liabilities	<u>13 412 280</u>	<u>14 639 711</u>
Net Position		
Net investment in capital assets	15 657 383	12 049 546
Unrestricted	<u>18 567 909</u>	<u>19 041 741</u>
Total Net Position	<u>34 225 292</u>	<u>31 091 287</u>
Total Liabilities and Net Position	<u>\$ 47 637 572</u>	<u>\$ 45 730 998</u>

The following table provides a comparison of the District's operations for the years ended December 31, 2019 and December 31, 2018. The District increased its net position by \$3,134,005 accounting for a 10.1% growth in net position.

Summary of Changes in Net Position

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Revenues		
Property Taxes	\$ 6 914 317	\$ 6 821 484
Sales Tax Revenues	6 651 945	6 079 472
Penalty and Interest	60 737	59 985
Interest on Temporary Investments	191 882	135 922
Rental and Lease Income	8 419	8 419
Miscellaneous Income	<u>189 468</u>	<u>31 858</u>
Total Revenues	<u>14 016 768</u>	<u>13 137 140</u>
Expenses		
Depreciation	2 547 261	3 159 427
Interest and Fees	326 109	241 333
Expenses for Services	<u>8 009 393</u>	<u>7 846 489</u>
Total Expenses	<u>10 882 763</u>	<u>11 247 249</u>
Revenues over Expenses before other items	3 134 005	1 889 891
Net Position, Beginning of Year	<u>31 091 287</u>	<u>29 201 396</u>
Net Position, End of Year	<u>\$ 34 225 292</u>	<u>\$ 31 091 287</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2019

(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, 2019 and December 31, 2018 were \$15,187,825 and \$15,458,708, respectively, a decrease of \$270,883 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 \$613,460 more than the budgeted deficiency of revenues over expenditures because: (1) the District's property and sales taxes were both higher than expected, and (2) amounts paid for emergency services were less and budgeted. These variances were offset by capital outlays, professional services, and station and facility repairs and maintenance being greater than expected. While both budgeted revenues and expenses were greater than expected, the budgeted revenues were much greater by comparison.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS
DECEMBER 31, 2019
(Continued)

CAPITAL ASSETS AND RELATED DEBT

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Land	\$ 7 389 409	\$ 7 389 409
Construction in Progress	4 737 856	1 457 902
Capital Assets, Net of Depreciation	<u>15 645 292</u>	<u>17 165 357</u>
Total Assets	<u>\$ 27 772 557</u>	<u>\$ 26 012 668</u>

Debt

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

Long Term Debt at Beginning of Year	\$ 13 963 122
Proceeds	-
Retirement of Principal	<u>(1 847 948)</u>
Long Term Debt, End of Year	<u>\$ 12 115 174</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, 8681 Louetta, Suite 250, Klein, Texas 77379.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

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

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<u>ASSETS</u>					
Cash and Temporary Investments	\$ 10 936 229	\$ 1 506 755	\$ 12 442 984	\$ -	\$ 12 442 984
Certificates of Deposit	351 935	-	351 935	-	351 935
Property Taxes Receivable	3 380 084	-	3 380 084	-	3 380 084
Due From Tax Assessor	2 130 923	-	2 130 923	-	2 130 923
Interest Receivable	1 659	-	1 659	-	1 659
Sales Tax Receivable	1 329 249	-	1 329 249	-	1 329 249
Miscellaneous Receivable	208 443	-	208 443	-	208 443
Inter-fund Receivables	1 816 613	-	1 816 613	(1 816 613)	-
Prepaid Expenses	19 738	-	19 738	-	19 738
Capital Assets					
Buildings (net of Accumulated Depreciation of \$5,707,271)	-	-	-	10 626 502	10 626 502
Equipment (net of Accumulated Depreciation of \$17,481,549)	-	-	-	5 018 790	5 018 790
Construction in Progress	-	-	-	4 737 856	4 737 856
Land	-	-	-	7 389 409	7 389 409
Total Assets	<u>\$ 20 174 873</u>	<u>\$ 1 506 755</u>	<u>\$ 21 681 628</u>	<u>\$ 25 955 944</u>	<u>\$ 47 637 572</u>
<u>LIABILITIES</u>					
Accounts Payable	\$ 616 550	\$ 443 664	\$ 1 060 214	\$ -	\$ 1 060 214
Retainage Payable	15 273	221 619	236 892	-	236 892
Inter-fund Payables	-	1 816 613	1 816 613	(1 816 613)	-
Long Term Liabilities					
Due within One Year	-	-	-	1 697 196	1 697 196
Due after One Year	-	-	-	10 417 978	10 417 978
Total Liabilities	<u>631 823</u>	<u>2 481 896</u>	<u>3 113 719</u>	<u>10 298 561</u>	<u>13 412 280</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Unavailable Tax Revenues	<u>3 380 084</u>	<u>-</u>	<u>3 380 084</u>	<u>(3 380 084)</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>3 380 084</u>	<u>-</u>	<u>3 380 084</u>	<u>(3 380 084)</u>	<u>-</u>
<u>FUND BALANCE/NET POSITION</u>					
Unassigned Fund Balance	<u>16 162 966</u>	<u>(975 141)</u>	<u>15 187 825</u>	<u>(15 187 825)</u>	<u>-</u>
Total Fund Balance	<u>16 162 966</u>	<u>(975 141)</u>	<u>15 187 825</u>	<u>(15 187 825)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 20 174 873</u>	<u>\$ 1 506 755</u>	<u>\$ 21 681 628</u>		
Net Investment in Capital Assets				15 657 383	15 657 383
Unrestricted				18 567 909	18 567 909
Total Net Position				<u>34 225 292</u>	<u>34 225 292</u>
Total Liabilities, Deferred Inflows of Resources and Net Position				<u>\$ 25 955 944</u>	<u>\$ 47 637 572</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, 2019**

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<u>REVENUES</u>					
Property Tax Revenues	\$ 7 117 266	\$ -	\$ 7 117 266	\$ (202 949)	\$ 6 914 317
Sales Tax Revenues	6 651 945	-	6 651 945	-	6 651 945
Penalty and Interest Revenues	60 737	-	60 737	-	60 737
Interest on Temporary Investments	186 205	5 677	191 882	-	191 882
Rental and Lease Income	8 419	-	8 419	-	8 419
Gain on Disposal of Capital Assets	143 742	-	143 742	-	143 742
Miscellaneous Income	45 726	-	45 726	-	45 726
Total Revenues	<u>14 214 040</u>	<u>5 677</u>	<u>14 219 717</u>	<u>(202 949)</u>	<u>14 016 768</u>
<u>EXPENDITURES/EXPENSES</u>					
Operating Expenses					
Appraisal District Fees	50 359	-	50 359	-	50 359
Bookkeeping Fees	10 450	-	10 450	-	10 450
Collection Fees	69 399	-	69 399	-	69 399
Dispatch Fees	37 927	-	37 927	-	37 927
District Miscellaneous Expenses	118 628	499	119 127	-	119 127
Election Expense	312	-	312	-	312
Emergency Services	4 846 000	-	4 846 000	-	4 846 000
Firefighting Tools and Equipment	1 660	-	1 660	-	1 660
Insurance	104 523	-	104 523	-	104 523
Information Technology and Communications	94 579	-	94 579	-	94 579
Legal Notices and Filing Fees	3 296	-	3 296	-	3 296
Office Expense	28 931	-	28 931	-	28 931
Payroll and Related Expense	167 944	-	167 944	-	167 944
Professional Services	1 736 057	28 523	1 764 580	-	1 764 580
Rents and Leases	87 402	-	87 402	-	87 402
Station and Facility Repairs and Maintenance	305 871	27 188	333 059	-	333 059
Utilities	87 264	-	87 264	-	87 264
Vehicle Maintenance	202 581	-	202 581	-	202 581
Capital Outlay	851 295	3 455 855	4 307 150	(4 307 150)	-
Debt Service					
Note Principal	887 948	960 000	1 847 948	(1 847 948)	-
Note Interest	111 759	214 350	326 109	-	326 109
Depreciation	-	-	-	2 547 261	2 547 261
Total Expenditures/Expenses	<u>9 804 185</u>	<u>4 686 415</u>	<u>14 490 600</u>	<u>(3 607 837)</u>	<u>10 882 763</u>
Excess(Deficiency) of Revenues over Expenses before other items	4 409 855	(4 680 738)	(270 883)	3 404 888	
Transfer Between Funds	<u>(1 000)</u>	<u>1 000</u>	<u>-</u>	<u>-</u>	
Excess(Deficiency) of Revenues over Expenses	4 408 855	(4 679 738)	(270 883)	3 404 888	
Change in Net Position					3 134 005
Fund Balance/Net Position					
Beginning of Year	<u>11 754 111</u>	<u>3 704 597</u>	<u>15 458 708</u>	<u>15 632 579</u>	<u>31 091 287</u>
End of Year	<u>\$ 16 162 966</u>	<u>\$ (975 141)</u>	<u>\$ 15 187 825</u>	<u>\$ 19 037 467</u>	<u>\$ 34 225 292</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, 2019

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-year term on a specific staggered basis.

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

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

B. BASIS OF PRESENTATION

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

The District uses the following fund types:

Governmental Funds

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

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, 2019 (Continued)

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

- 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, 2019. These statements are presented on an accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded in the period they are earned, and expenses are recorded in the period they are incurred. The "Adjustments" column on these statements represents 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, 2019
 (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, 2019	\$ 15 187 825
Capital assets used in governmental activities are not financial and are not reported in the funds	27 772 557
Long term debt obligations are not reported in the funds	(12 115 174)
Conversion of property tax assessments to full accrual basis	<u>3 380 084</u>
Total Net Position at December 31, 2019	<u>\$ 34 225 292</u>

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

Change in fund balance	\$ (270 883)
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.	1 759 889
Principal payments on debt are reported as expenditures in the funds. However, they do not affect net position.	1 847 948
Conversion of property tax assessments to full accrual basis	<u>(202 949)</u>
Change in net position of governmental activities	<u>\$ 3 134 005</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(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, 2019, \$4,846,000 was paid to the Department. Separate audited financial statements of Klein Volunteer Fire Department are available as of December 31, 2019.

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, 2019, the District earned \$6,651,915 in sales tax revenue.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 (Continued)

NOTE (4) AD VALOREM TAX

During the year ended December 31, 2019, the District levied an ad valorem tax at the rate of \$.04950 per \$100 of assessed valuation, which resulted in a tax levy of \$6,976,565 on the taxable valuation of \$14,094,071,129 for the 2019 tax year. The ad valorem tax was due upon receipt and was considered delinquent if not paid by February 1, at which time penalties and interest were assessed. The levy date of the tax was 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, 2019, include collections during the current period or within 60 days of year-end related to the 2019 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 \$15,074,986, which occurred in February 2019. During the year the District began using Frost Bank as a contracted depository bank. The largest cash balance during the year was \$7,581,320, which occurred in December 2019.

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 \$351,935 at December 31, 2019 in certificate of deposit accounts. The District holds investments at December 31, 2019, in accordance with the Board approved investment policy, in TexPool State Treasury ("TexPool"). In following the Public Funds Collateral Act, TexPool invests the District's funds in obligations of the United States, obligations issued by a public agency that is payable from taxes, revenues, or a combination thereof that has been rated by a nationally recognized rating agency with a rating of not less than A, or any security in which a public entity may invest under the Public Funds Investment Act of 1987. Surety bonds and investment securities are used as collateral to secure both the amount of the deposits with TexPool plus any accrued interest. A separate financial report for TexPool is prepared in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained from TexPool Participant Services, c/o Federated Investors, 1001 Texas Ave., 14th Floor, Houston, Texas 77002. The District held investments in TexPool with a total carrying value and market value of \$1,735,467 at December 31, 2019.

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, 2019.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019
 (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 December 31,</u>	<u>Amount</u>
2020	\$ 8 419
2021	8 419
2022	8 419
2023	8 419
2024	8 419
Thereafter	<u>53 320</u>
Total	<u>\$ 95 415</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	\$ 7 389 409	\$ -	\$ -	\$ 7 389 409
Buildings	16 333 772	-	-	16 333 772
Equipment	22 520 799	21 700	-	22 542 499
Less: Accumulated Depreciation	<u>(21 689 214)</u>	<u>1 005 496</u>	<u>(2 547 261)</u>	<u>(23 230 979)</u>
Total Net Book Value	<u>17 165 357</u>	<u>1 027 196</u>	<u>(2 547 261)</u>	<u>15 645 292</u>
Construction in Progress	<u>1 457 902</u>	<u>3 279 954</u>	-	<u>4 737 856</u>
Totals	<u>\$ 26 012 668</u>	<u>\$ 4 307 150</u>	<u>\$ (2 547 261)</u>	<u>\$ 27 772 557</u>

During the year ended December 31, 2019, the District capitalized training facility improvements and furniture, additional generator costs, four Chevy Tahoe police vehicles and one Pierce Peterbuilt Engine. The District traded in a Pierce rescue vehicle and Pierce pumper for the Pierce Peterbuilt Engine. The gain on the disposal of the engines was \$116,500. In addition, the District auctioned two vehicles for a gain on disposal of \$27,242. Construction in progress relates to the construction of station no. 3 with training facility. The District has a contract for station no. 3 for \$5,832,040.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(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, 2019 was \$982,053. During the year ended December 31, 2019, the District paid two payments of principal and interest totaling \$381,044 and \$35,842, respectively. The balance due at December 31, 2019 was \$601,009.

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 is using 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, 2019 was \$3,255,000. During the year ended December 31, 2019, the District paid principal and interest of \$384,000 and \$53,708, respectively. The balance due at December 31, 2019 was \$2,871,000.

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. The balance at January 1, 2019 was \$3,226,069. During the year ended December 31, 2019, the District paid principal and interest of \$506,904 and \$75,917, respectively. The balance due at December 31, 2019 was \$2,719,165.

On March 29, 2018, the District entered into a note with JPMorgan Chase Bank at face value of \$6,500,000 bearing an interest rate of 2.586%. 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 April 20, 2019 with the first interest payment due October 20, 2018. The balance due at December 31, 2018 was \$6,500,000. During the year ended December 31, 2019, the District paid principal and interest of \$576,000 and \$160,642, respectively. The balance due at December 31, 2019 was \$5,924,000.

Future maturities of the balances outstanding are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2020	\$ 1 697 196
December 31, 2021	1 736 352
December 31, 2022	1 774 875
December 31, 2023	1 606 330
December 31, 2024	1 643 421
Thereafter	<u>3 657 000</u>
Total Amount	<u><u>\$ 12 115 174</u></u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Continued)

NOTE (9) DEFERRED COMPENSATION PLAN

Beginning January 1, 2019, the District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees over 21 and with one year of continuous service, permits them to defer a portion of their current salary until future years. The District matches 50% of up to 6% of an employee's salary. The matching contribution is automatically 100% vested. All distributions from plan are subject to the minimum distribution requirements of Internal Revenue Code Section 401(a)(9). During the year, total contribution to the plan was \$3,021.

NOTE (10) LEASE COMMITMENTS

Effective May 1, 2018, the District entered into a lease for office space under an operating lease agreement. The lease commenced April 1, 2019 and expires 36 months after commencement. At the end of the lease, the District has the option to renew for one year. The base rent for this lease is \$5,181 per month plus electricity. For the year ended December 31, 2019, rent expense was \$46,627 for this lease. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 62 169
2021	62 169
2022	<u>15 542</u>
Total	<u>\$ 139 880</u>

The District leases modular offices and furniture for construction sites on a month-to-month basis. Total rent for the offices and furniture for the year ended December 31, 2019 was \$40,775.

NOTE (11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 8, 2020, (the date the financial statements were available to be issued) and noted that the coronavirus pandemic occurred subsequent to year end. The economic effects of this pandemic on the District are unknown at the date of this report. No other subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
<u>REVENUES</u>			
Property Tax Revenues	\$ 7 117 266	\$ 6 303 496	\$ 813 770
Sales Tax Revenues	6 651 945	5 700 000	951 945
Penalty and Interest Revenues	60 737	15 000	45 737
Interest on Temporary Investments	191 882	10 000	181 882
Rental and Lease Income	8 419	8 419	-
Gain on Disposal of Capital Assets	143 742	-	143 742
Miscellaneous Income	45 726	-	45 726
Total Revenues	<u>14 219 717</u>	<u>12 036 915</u>	<u>2 182 802</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses			
Appraisal District Fees	50 359	48 000	(2 359)
Bookkeeping Fees	10 450	10 000	(450)
Collection Fees	69 399	101 652	32 253
Dispatch Fees	37 927	-	(37 927)
District Miscellaneous Expenses	119 127	136 700	17 573
Election Expense	312	50 000	49 688
Emergency Services	4 846 000	5 470 000	624 000
Firefighting Tools and Equipment	1 660	-	(1 660)
Insurance	104 523	41 000	(63 523)
Information Technology and Communications	94 579	-	(94 579)
Legal Notices and Filing Fees	3 296	-	(3 296)
Office Expense	28 931	30 000	1 069
Payroll and Related Expenses	167 944	-	(167 944)
Professional Services	1 764 580	505 000	(1 259 580)
Rents and Leases	87 402	700 821	613 419
Station and Facility Repairs and Maintenance	333 059	-	(333 059)
Utilities	87 264	-	(87 264)
Vehicle Maintenance	202 581	-	(202 581)
Capital Outlay	4 307 150	4 085 000	(222 150)
Debt Service			
Note Principal	1 847 948	1 743 085	(104 863)
Note Interest	326 109	-	(326 109)
Total Expenditures/Expenses	<u>14 490 600</u>	<u>12 921 258</u>	<u>(1 569 342)</u>
Excess(Deficiency) of Revenues over Expenditures	(270 883)	(884 343)	613 460
Beginning of year	<u>11 754 111</u>	<u>11 754 111</u>	<u>-</u>
End of year	<u>\$ 11 483 228</u>	<u>\$ 10 869 768</u>	<u>\$ 613 460</u>

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**SCHEDULE OF TEMPORARY INVESTMENTS
DECEMBER 31, 2019**

CERTIFICATES OF DEPOSIT

<u>Bank</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>
Texan Bank	10/15/2020	2.20%	\$ 108 920
Spirit of Texas Bank	4/14/2020	2.25%	<u>243 015</u>
		TOTAL	<u>\$ 351 935</u>

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**ANALYSIS OF TAXES RECEIVABLE
DECEMBER 31, 2019**

Taxes Receivable - Beginning of Year	\$ 3 583 033
2019 Tax Roll	6 976 565
Adjustments to prior year taxes	<u>(62 248)</u>
Total to be Accounted for	<u>10 497 350</u>
Tax Collections Received from Tax Collector	5 419 431
Balance Held by Tax Collector, December 31, 2019	<u>2 130 923</u>
Total Tax Collections	<u>7 117 266</u>
Taxes Receivable - End of Year	<u><u>\$ 3 380 084</u></u>

Assessed Valuation Summary

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Property Valuations					
Real Property	\$13 465 627 182	\$13 138 102 666	\$ 12 774 761 285	\$12 084 331 787	\$11 929 506 087
Personal Property	<u>628 443 947</u>	<u>677 682 546</u>	<u>596 120 231</u>	<u>689 361 241</u>	<u>612 142 448</u>
Total Property Valuations	<u><u>\$14 094 071 129</u></u>	<u><u>\$13 815 785 212</u></u>	<u><u>\$ 13 370 881 516</u></u>	<u><u>\$12 773 693 028</u></u>	<u><u>\$12 541 648 535</u></u>
Tax Rate per \$100 Valuations	<u>\$ 0.04950</u>	<u>\$ 0.04957</u>	<u>\$ 0.04947</u>	<u>\$ 0.05000</u>	<u>\$ 0.05000</u>
Tax Rolls	<u>\$ 6 976 565</u>	<u>\$ 6 848 485</u>	<u>\$ 6 614 575</u>	<u>\$ 6 386 847</u>	<u>\$ 6 270 824</u>
Percent of Taxes Collected to Taxes Levied	<u>53.6%</u>	<u>99.3%</u>	<u>99.7%</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, 2019**

District Mailing Address: Harris County Emergency Services District No. 16
8681 Louetta, Suite 250
Klein, Texas 77379

District Telephone Number: 281-376-4449

<u>Names</u>	<u>Term of Office</u>	<u>Fees Paid *</u> <u>FYE 12/31/19</u>	<u>Expense</u> <u>Reimbursements</u> <u>FYE 12/31/19</u>	<u>Title at</u> <u>Year End</u>
<u>Board Members</u>				
Rich Jones	06/18 - 05/22 (Elected)	\$ -	\$ 4 066	President
Michael Pate	06/16 - 05/20 (Elected)	\$ -	\$ 6 245	Vice President
Robert W. Carson	06/16 - 05/20 (Elected)	\$ -	\$ -	Treasurer
Steve Falkner	06/16 - 01/20 (Elected)	\$ -	\$ 345	Secretary
Lance Wilson	06/18 - 05/22 (Elected)	\$ -	\$ -	Assistant Treasurer Assistant Secretary
<u>Consultants</u>				
Breedlove & Co., P.C.		\$ 10 550	\$ -	Auditors
Coveler & Peeler, P.C.		\$ 121 489	\$ 3 585	Legal Counsel
Harris County Appraisal District		\$ 50 359	\$ -	Appraisal District
Myrtle Cruz, Inc.		\$ 10 450	\$ 3 014	Bookkeeper
BD Realty Advisors, LLC		\$ 17 706	\$ -	Real Estate Advisors
Brown, Reynolds & Watford		\$ 1 336 680	\$ 4 625	Architect
Martinez Architects		\$ 1 043	\$ -	Architect
HdL Companies (formerly Sales Tax Assurance LLC)		\$ 179 841	\$ -	Sales Tax Consultant

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

See Independent Auditors' Report.