
HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

Report on Financial Statements
(With Supplemental Material)

For the Year Ended December 31, 2020

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INDEPENDENT AUDITORS' REPORT

May 10, 2021

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, 2020, 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, 2020, 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 19 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.

Breadmore & Co., P.C.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS DECEMBER 31, 2020

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, 2020. 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 \$39,064,525 as of December 31, 2020, as compared to \$34,225,292 at December 31, 2019.

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, 2020
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of Net Position

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Current Assets	\$ 32 708 168	\$ 19 865 015
Capital Assets	<u>26 481 542</u>	<u>27 772 557</u>
Total Assets	<u>\$ 59 189 710</u>	<u>\$ 47 637 572</u>
Current Liabilities	\$ 2 319 894	\$ 2 994 302
Long Term Liabilities	<u>17 805 291</u>	<u>10 417 978</u>
Total Liabilities	<u>20 125 185</u>	<u>13 412 280</u>
Net Position		
Net investment in capital assets	6 568 210	15 657 383
Unrestricted	<u>32 496 315</u>	<u>18 567 909</u>
Total Net Position	<u>39 064 525</u>	<u>34 225 292</u>
Total Liabilities and Net Position	<u>\$ 59 189 710</u>	<u>\$ 47 637 572</u>

The following table provides a comparison of the District's operations for the years ended December 31, 2020 and December 31, 2019. The District increased its net position by \$4,839,233 accounting for a 14.1% growth in net position.

Summary of Changes in Net Position

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Revenues		
Property Taxes	\$ 7 797 753	\$ 6 914 317
Sales Tax Revenues	7 677 784	6 651 945
Penalty and Interest	59 005	60 737
Interest on Temporary Investments	34 046	191 882
Rental and Lease Income	8 419	8 419
Miscellaneous Income	<u>133 686</u>	<u>189 468</u>
Total Revenues	<u>15 710 693</u>	<u>14 016 768</u>
Expenses		
Depreciation	2 697 661	2 547 261
Interest and Fees	266 386	326 109
Expenses for Services	<u>7 907 413</u>	<u>8 009 393</u>
Total Expenses	<u>10 871 460</u>	<u>10 882 763</u>
Revenues over Expenses before other items	4 839 233	3 134 005
Net Position, Beginning of Year	<u>34 225 292</u>	<u>31 091 287</u>
Net Position, End of Year	<u>\$ 39 064 525</u>	<u>\$ 34 225 292</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2020

(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, 2020 and December 31, 2019 were \$26,299,937 and \$15,187,825, respectively, an increase of \$11,112,112 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 \$18,906,002 more than the budgeted deficiency of revenues over expenditures because: (1) the District's sales taxes was higher than expected, (2) station and facility repairs and maintenance were much less than expected and (2) the District received note proceeds for a new facility that were not included in the budget. These variances were offset by capital outlays and professional services being greater than expected and property tax revenue being less than expected.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**MANAGEMENT DISCUSSION & ANALYSIS
DECEMBER 31, 2020
(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, 2020</u>	<u>December 31, 2019</u>
Land	\$ 7 451 409	\$ 7 389 409
Construction in Progress	-	1 457 902
Capital Assets, Net of Depreciation	<u>19 030 133</u>	<u>17 165 357</u>
Total Assets	<u>\$ 26 481 542</u>	<u>\$ 26 012 668</u>

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2020 are summarized as follows:

Long Term Debt at Beginning of Year	\$ 12 115 174
Proceeds	9 900 000
Retirement of Principal	<u>(2 101 842)</u>
Long Term Debt, End of Year	<u>\$ 19 913 332</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, 2020

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Cash and Temporary Investments	\$ 24 013 752	\$ -	\$ 24 013 752
Property Taxes Receivable	6 196 378	-	6 196 378
Due From Tax Assessor	1 024 514	-	1 024 514
Sales Tax Receivable	1 453 709	-	1 453 709
Prepaid Expenses	19 815	-	19 815
Capital Assets			
Buildings (net of Accumulated Depreciation of \$6,665,544)	-	15 665 598	15 665 598
Equipment (net of Accumulated Depreciation of \$18,746,077)	-	3 364 535	3 364 535
Land	-	7 451 409	7 451 409
Total Assets	<u>\$ 32 708 168</u>	<u>\$ 26 481 542</u>	<u>\$ 59 189 710</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 211 853	\$ -	\$ 211 853
Long Term Liabilities			
Due within One Year	-	2 108 041	2 108 041
Due after One Year	-	17 805 291	17 805 291
Total Liabilities	<u>211 853</u>	<u>19 913 332</u>	<u>20 125 185</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Tax Revenues	<u>6 196 378</u>	<u>(6 196 378)</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>6 196 378</u>	<u>(6 196 378)</u>	<u>-</u>
<u>FUND BALANCE/NET POSITION</u>			
Unassigned Fund Balance	<u>26 299 937</u>	<u>(26 299 937)</u>	<u>-</u>
Total Fund Balance	<u>26 299 937</u>	<u>(26 299 937)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 32 708 168</u>		
Net Investment in Capital Assets		6 568 210	6 568 210
Unrestricted		32 496 315	32 496 315
Total Net Position		<u>39 064 525</u>	<u>39 064 525</u>
Total Liabilities, Deferred Inflows of Resources and Net Position		<u>\$ 26 481 542</u>	<u>\$ 59 189 710</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, 2020

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<u>REVENUES</u>			
Property Tax Revenues	\$ 4 981 459	\$ 2 816 294	\$ 7 797 753
Sales Tax Revenues	7 677 784	-	7 677 784
Penalty and Interest Revenues	59 005	-	59 005
Interest on Temporary Investments	34 046	-	34 046
Rental and Lease Income	8 419	-	8 419
Gain on Disposal of Capital Assets	90 000	-	90 000
Miscellaneous Income	43 686	-	43 686
Total Revenues	<u>12 894 399</u>	<u>2 816 294</u>	<u>15 710 693</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses			
Appraisal District Fees	52 789	-	52 789
Bookkeeping Fees	2 258	-	2 258
Collection Fees	29 197	-	29 197
District Miscellaneous Expenses	1 239	-	1 239
Election Expense	216 842	-	216 842
Emergency Services	4 610 000	-	4 610 000
Firefighting Gear, Tools, and Equipment	83 479	-	83 479
Insurance	122 763	-	122 763
Information Technology and Communications	232 226	-	232 226
Office Expense	62 332	-	62 332
Payroll and Related Expense	434 009	-	434 009
Professional Services	656 773	-	656 773
Rents and Leases	71 733	-	71 733
Signal pre-emption	113 863	-	113 863
Station and Facility Repairs and Maintenance	535 742	-	535 742
Supplies and General Storage	43 125	-	43 125
Utilities	630 939	-	630 939
Vehicle Maintenance	8 104	-	8 104
Capital Outlay	1 406 646	(1 406 646)	-
Debt Service			
Note Principal	2 101 842	(2 101 842)	-
Note Interest	266 386	-	266 386
Depreciation	-	2 697 661	2 697 661
Total Expenditures/Expenses	<u>11 682 287</u>	<u>(810 827)</u>	<u>10 871 460</u>
Excess(Deficiency) of Revenues over Expenses before other items	1 212 112	3 627 121	
Note Proceeds	<u>9 900 000</u>	<u>(9 900 000)</u>	<u>-</u>
Excess(Deficiency) of Revenues over Expenses	11 112 112	(6 272 879)	
Change in Net Position			4 839 233
Fund Balance/Net Position			
Beginning of Year	<u>15 187 825</u>	<u>19 037 467</u>	<u>34 225 292</u>
End of Year	<u>\$ 26 299 937</u>	<u>\$ 12 764 588</u>	<u>\$ 39 064 525</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, 2020

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, 2020 (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, 2020. 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, 2020
 (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, 2020	\$ 26 299 937
Capital assets used in governmental activities are not financial and are not reported in the funds	26 481 542
Long term debt obligations are not reported in the funds	(19 913 332)
Conversion of property tax assessments to full accrual basis	<u>6 196 378</u>
Total Net Position at December 31, 2020	<u>\$ 39 064 525</u>

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

Change in fund balance	\$ 11 112 112
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 depreciation exceeded capital outlay and conveyance of capital assets in the current period.	(1 291 015)
Principal payments on debt are reported as expenditures in the funds. However, they do not affect net position.	2 101 842
Conversion of property tax assessments to full accrual basis	<u>2 816 294</u>
Change in net position of governmental activities	<u>\$ 4 839 233</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(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, 2020, \$4,610,000 was paid to the Department. Separate audited financial statements of Klein Volunteer Fire Department are available as of December 31, 2020.

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, 2020, the District earned \$7,677,784 in sales tax revenue.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

(Continued)

NOTE (4) AD VALOREM TAX

During the year ended December 31, 2020, the District levied an ad valorem tax at the rate of \$.05 per \$100 of assessed valuation, which resulted in a tax levy of \$7,427,381 on the taxable valuation of \$14,854,762,699 for the 2020 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, 2020, include collections during the current period or within 60 days of year-end related to the 2020 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 Frost Bank as contracted depository bank. The largest cash balance during the year was \$12,405,912, which occurred in December 2020. During the year the District moved all funds from BBVA Compass Bank as a contracted depository bank. The largest cash balance during the year was \$5,694,039, which occurred in January 2020.

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 holds investments at December 31, 2020, 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 \$11,623,517 at December 31, 2020.

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, 2020.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020
 (Continued)

NOTE (6) INTERLOCAL AGREEMENTS

On November 4, 2020, the District entered into an agreement with Harris County Municipal Utility District No. 24 (MUD 24). Under the agreement the District made an upfront payment of \$433,000 to MUD 24 to cover water and sewer services and connections to be provided to multi-purpose buildings including administration building, maintenance facility, and fire station. This payment is included in utilities on the statement of activities.

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>
2021	\$ 8 419
2022	8 419
2023	8 419
2024	8 419
2025	8 419
Thereafter	<u>44 901</u>
Total	<u><u>\$ 86 996</u></u>

NOTE (7) CHANGES IN CAPITAL ASSETS

The changes in the capital assets are as follows:

	<u>Beginning of</u>	<u>Acquisitions</u>	<u>Depreciation</u>	
	<u>Year</u>	<u>(Disposals)</u>	<u>Expense</u>	<u>End of Year</u>
Land	<u>\$ 7 389 409</u>	<u>\$ 62 000</u>	<u>\$ -</u>	<u>\$ 7 451 409</u>
Buildings	16 333 772	5 997 370	-	22 331 142
Equipment	22 542 499	(431 887)	-	22 110 612
Less: Accumulated Depreciation	<u>(23 230 979)</u>	<u>517 019</u>	<u>(2 697 661)</u>	<u>(25 411 621)</u>
Total Net Book Value	<u>15 645 292</u>	<u>6 082 502</u>	<u>(2 697 661)</u>	<u>19 030 133</u>
Construction in Progress	<u>4 737 856</u>	<u>(4 737 856)</u>	-	-
Totals	<u><u>\$ 27 772 557</u></u>	<u><u>\$ 1 406 646</u></u>	<u><u>\$ (2 697 661)</u></u>	<u><u>\$ 26 481 542</u></u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 (Continued)

NOTE (7) CHANGES IN CAPITAL ASSETS (Continued)

During the year ended December 31, 2020, the District capitalized station no. 3 and training facility remaining costs, training facility equipment and furniture, GRACE accountability system, bathroom remodel at headquarters, and escrow amounts for station no. 7 land. The District sold a Pierce Pumper. The gain on the disposal of the engines was \$90,000.

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, 2020 was \$601,009. During the year ended December 31, 2020, the District paid principal and interest totaling \$601,009 and \$9,899, respectively. The note was paid in full during the year.

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, 2020 was \$2,871,000. During the year ended December 31, 2020, the District paid principal and interest of \$390,000 and \$47,213, respectively. The balance due at December 31, 2020 was \$2,481,000.

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, 2020 was \$2,719,165. During the year ended December 31, 2020, the District paid principal and interest of \$518,833 and \$63,989, respectively. The balance due at December 31, 2020 was \$2,200,332.

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, administration building, and related equipment. One principal and two interest payments are due annually beginning April 20, 2020 with the first interest payment due October 20, 2018. The balance due at January 1, 2020 was \$5,924,000. During the year ended December 31, 2020, the District paid principal and interest of \$592,000 and \$145,285, respectively. The balance due at December 31, 2020 was \$5,332,000.

On December 9, 2020, the District entered into a note with Government Capital Corporation, which was subsequently assigned to Southside Bank, at face value of \$9,900,000 bearing an interest rate of 2.10%. 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 administration and maintenance. Principal and interest payments are due quarterly beginning March 1, 2021. During the year ended December 31, 2020, the District made no principal and interest payments. The balance due at December 31, 2020 was \$9,900,000.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)**

NOTE (8) NOTES PAYABLE (Continued)

Future maturities of the balances outstanding are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2021	\$ 2 108 041
December 31, 2022	2 149 951
December 31, 2023	2 198 006
December 31, 2024	2 247 620
December 31, 2025	1 714 988
December 31, 2026-2030	5 845 443
December 31, 2031-2035	<u>3 649 283</u>
Total Amount	<u>\$ 19 913 332</u>

NOTE (9) DEFFERRED 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 \$6,956 which is included under payroll and related expense on the statement of activities.

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, 2020, rent expense was \$71,733 for this lease. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 62 169
2022	<u>15 542</u>
Total	<u>\$ 77 711</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, 2020 was \$63,647.

NOTE (11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 10, 2021, (the date the financial statements were available to be issued) and noted no 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, 2020

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
<u>REVENUES</u>			
Property Tax Revenues	\$ 4 981 459	\$ 7 180 594	\$ (2 199 135)
Sales Tax Revenues	7 677 784	7 000 000	677 784
Penalty and Interest Revenues	59 005	15 000	44 005
Interest on Temporary Investments	34 046	10 000	24 046
Rental and Lease Income	8 419	8 419	-
Gain on Disposal of Capital Assets	90 000	-	90 000
Miscellaneous Income	<u>43 686</u>	<u>-</u>	<u>43 686</u>
Total Revenues	<u>12 894 399</u>	<u>14 214 013</u>	<u>(1 319 614)</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses			
Appraisal District Fees	52 789	50 000	(2 789)
Bookkeeping Fees	2 258	2 500	242
Collection Fees	29 197	-	(29 197)
District Miscellaneous Expenses	1 239	1 500	261
Election Expense	216 842	80 000	(136 842)
Emergency Services	4 610 000	4 610 000	-
Firefighting Gear, Tools, and Equipment	83 479	109 666	26 187
Insurance	122 763	127 419	4 656
Information Technology and Communications	232 226	213 700	(18 526)
Office Expense	62 332	61 054	(1 278)
Payroll and Related Expense	434 009	622 000	187 991
Professional Services	656 773	241 000	(415 773)
Rents and Leases	71 733	90 000	18 267
Signal pre-emption	113 863	150 000	36 137
Station and Facility Repairs and Maintenance	535 742	12 400 182	11 864 440
Supplies and General Storage	43 125	41 000	(2 125)
Utilities	630 939	220 100	(410 839)
Vehicle Maintenance	8 104	138 000	129 896
Capital Outlay	1 406 646	-	(1 406 646)
Debt Service			
Note Principal	2 101 842	2 849 782	747 940
Note Interest	<u>266 386</u>	<u>-</u>	<u>(266 386)</u>
Total Expenditures/Expenses	<u>11 682 287</u>	<u>22 007 903</u>	<u>10 325 616</u>
Excess(Deficiency) of Revenues over Expenditures	1 212 112	(7 793 890)	9 006 002
Note Proceeds	9 900 000	-	9 900 000
Beginning of year	<u>15 187 825</u>	<u>15 187 825</u>	<u>-</u>
End of year	<u>\$ 26 299 937</u>	<u>\$ 7 393 935</u>	<u>\$ 18 906 002</u>

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

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**ANALYSIS OF TAXES RECEIVABLE
DECEMBER 31, 2020**

Taxes Receivable - Beginning of Year	\$ 3 380 084
2020 Tax Roll	7 427 381
Adjustments to prior year taxes	<u>370 372</u>
Total to be Accounted for	<u>11 177 837</u>
Tax Collections Received from Tax Collector	3 956 945
Balance Held by Tax Collector, December 31, 2020	<u>1 024 514</u>
Total Tax Collections	<u>4 981 459</u>
Taxes Receivable - End of Year	<u><u>\$ 6 196 378</u></u>

Assessed Valuation Summary

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Property Valuations					
Real Property	\$14 012 566 854	\$13 465 627 182	\$ 13 138 102 666	\$12 774 761 285	\$12 084 331 787
Personal Property	<u>842 195 845</u>	<u>628 443 947</u>	<u>677 682 546</u>	<u>596 120 231</u>	<u>689 361 241</u>
Total Property Valuations	<u>\$14 854 762 699</u>	<u>\$14 094 071 129</u>	<u>\$ 13 815 785 212</u>	<u>\$13 370 881 516</u>	<u>\$12 773 693 028</u>
Tax Rate per \$100 Valuations	<u>\$ 0.05000</u>	<u>\$ 0.04950</u>	<u>\$ 0.04957</u>	<u>\$ 0.04947</u>	<u>\$ 0.05000</u>
Tax Rolls	<u>\$ 7 427 381</u>	<u>\$ 6 976 565</u>	<u>\$ 6 848 485</u>	<u>\$ 6 614 575</u>	<u>\$ 6 386 847</u>
Percent of Taxes Collected to Taxes Levied	<u>25.0%</u>	<u>95.2%</u>	<u>98.3%</u>	<u>98.3%</u>	<u>99.0%</u>

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**BOARD MEMBERS AND CONSULTANTS
DECEMBER 31, 2020**

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 * FYE 12/31/20</u>	<u>Expense Reimbursements FYE 12/31/20</u>	<u>Title at Year End</u>
<u>Board Members</u>				
Rich Jones	06/18 - 05/22 (Elected)	\$ -	\$ 4 066	President
Michael Pate	06/16 - 05/20 06/20 - 06/24 (Elected)	\$ -	\$ 6 245	Treasurer
Steve Falkner	06/16 - 05/20 06/20 - 06/24 (Elected)	\$ -	\$ 345	Secretary
Lance Wilson	06/18 - 05/22 (Elected)	\$ -	\$ -	Vice President
Marcus Melvin	06/20 - 05/24 (Elected) 02/20 - 05/20 (Appointed)	\$ -	\$ -	Assistant Secretary Assistant Treasurer
Robert W. Carson	06/16 - 01/20 (Elected)	\$ -	\$ -	-
<u>Consultants</u>				
Breedlove & Co., P.C.		\$ 12 137	\$ -	Auditors
Coveler & Peeler, P.C.		\$ 103 407	\$ 4 805	Legal Counsel
Harris County Appraisal District		\$ 52 789	\$ -	Appraisal District
BD Realty Advisors, LLC		\$ 17 083	\$ -	Real Estate Advisors
Brown, Reynolds & Watford		\$ 704 290	\$ 4 343	Architect
HdL Companies (formerly Sales Tax Assurance LLC)		\$ 6 000	\$ -	Sales Tax Consultant
Government Capital Corporation		\$ 123 750	\$ -	Financial Advisor

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

See Independent Auditors' Report.