
HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

Report on Financial Statements
(With Supplemental Material)

For the Year Ended December 31, 2021

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BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

17014 Seven Pines Drive
Spring, Texas 77379
(281) 379-1065
(281) 379-6322 (fax)

JILL A. HENZE, CPA
President

NICOLE BREEDLOVE HUNT, CPA
CEO

INDEPENDENT AUDITORS' REPORT

May 9, 2022

Board of Commissioners
Harris County Emergency Services District No. 16
Harris County, Texas

Opinion

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, 2021 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

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, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Harris County Emergency Services District No. 16, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Harris County Emergency Services District No. 16's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Harris County Emergency Services District No. 16's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harris County Emergency Services District No. 16's ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison on pages 5 through 7 and 19 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harris County Emergency Services District No. 16's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Brechner & Co., P.C.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS DECEMBER 31, 2021

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, 2021. 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 \$43,450,926 as of December 31, 2021, as compared to \$39,064,525 at December 31, 2020.

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, 2021
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of Net Position

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Current Assets	\$ 30 463 664	\$ 32 708 168
Noncurrent Assets	<u>36 067 556</u>	<u>26 481 542</u>
Total Assets	<u>\$ 66 531 220</u>	<u>\$ 59 189 710</u>
Current Liabilities	\$ 3 808 111	\$ 2 319 894
Long Term Liabilities	<u>19 272 183</u>	<u>17 805 291</u>
Total Liabilities	<u>23 080 294</u>	<u>20 125 185</u>
Net Position		
Net investment in capital assets	14 105 881	6 568 210
Unrestricted	<u>29 345 045</u>	<u>32 496 315</u>
Total Net Position	<u>43 450 926</u>	<u>39 064 525</u>
Total Liabilities and Net Position	<u>\$ 66 531 220</u>	<u>\$ 59 189 710</u>

The following table provides a comparison of the District's operations for the years ended December 31, 2021 and December 31, 2020. The District increased its net position by \$4,386,401 accounting for a 11.2% growth in net position.

Summary of Changes in Net Position

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Revenues		
Property Taxes	\$ 7 061 435	\$ 7 797 753
Sales Tax Revenues	8 989 101	7 677 784
Penalty and Interest	83 971	59 005
Interest on Temporary Investments	3 853	34 046
Rental and Lease Income	8 419	8 419
Miscellaneous Income	<u>68 322</u>	<u>133 686</u>
Total Revenues	<u>16 215 101</u>	<u>15 710 693</u>
Expenses		
Depreciation	2 414 508	2 697 661
Interest and Fees	496 292	266 386
Expenses for Services	<u>8 917 900</u>	<u>7 907 413</u>
Total Expenses	<u>11 828 700</u>	<u>10 871 460</u>
Revenues over Expenses before other items	4 386 401	4 839 233
Net Position, Beginning of Year	<u>39 064 525</u>	<u>34 225 292</u>
Net Position, End of Year	<u>\$ 43 450 926</u>	<u>\$ 39 064 525</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2021

(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, 2021 and December 31, 2020 were \$25,238,893 and \$26,299,937, respectively, a decrease of \$1,061,044 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 \$1,061,044 less than the budgeted deficiency of revenues over expenditures because: (1) the District had a budget item for a drawdown from cash reserves that did not have revenue associated with it, and (2) capital outlay was greater than expected. These variances were offset by property tax revenues and sales tax revenues being greater than expected, along with note proceeds being received that were not included in the budget.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**MANAGEMENT DISCUSSION & ANALYSIS
DECEMBER 31, 2021
(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, 2021</u>	<u>December 31, 2020</u>
Land	\$ 9 175 654	\$ 7 451 409
Construction in Progress	7 804 576	-
Capital Assets, Net of Depreciation	<u>18 787 326</u>	<u>19 030 133</u>
 Total Assets	<u>\$ 35 767 556</u>	<u>\$ 26 481 542</u>

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2021 are summarized as follows:

Long Term Debt at Beginning of Year	\$19 913 332
Proceeds	4 100 000
Retirement of Principal	<u>(2 351 657)</u>
Long Term Debt, End of Year	<u>\$21 661 675</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, 2021

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Cash and Temporary Investments	\$ 23 824 915	\$ -	\$ 23 824 915
Property Taxes Receivable	4 106 152	-	4 106 152
Due From Tax Assessor	408 968	-	408 968
Sales Tax Receivable	1 763 425	-	1 763 425
Miscellaneous Receivable	331 139	-	331 139
Rent Receivable	8 419	-	8 419
Prepaid Expenses	20 646	-	20 646
Investment in TECC	300 000	-	300 000
Capital Assets			
Buildings (net of Accumulated Depreciation of \$7,668,123)	-	14 700 019	14 700 019
Equipment (net of Accumulated Depreciation of \$20,158,006)	-	4 087 307	4 087 307
Construction in Progress	-	7 804 576	7 804 576
Land	-	9 175 654	9 175 654
Total Assets	<u>\$ 30 763 664</u>	<u>\$ 35 767 556</u>	<u>\$ 66 531 220</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 1 025 364	\$ -	\$ 1 025 364
Retainage Payable	393 255	-	393 255
Long Term Liabilities			
Due within One Year	-	2 389 492	2 389 492
Due after One Year	-	19 272 183	19 272 183
Total Liabilities	<u>1 418 619</u>	<u>21 661 675</u>	<u>23 080 294</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Tax Revenues	<u>4 106 152</u>	<u>(4 106 152)</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>4 106 152</u>	<u>(4 106 152)</u>	<u>-</u>
<u>FUND BALANCE/NET POSITION</u>			
Unassigned Fund Balance	<u>25 238 893</u>	<u>(25 238 893)</u>	<u>-</u>
Total Fund Balance	<u>25 238 893</u>	<u>(25 238 893)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 30 763 664</u>		
Net Investment in Capital Assets		14 105 881	14 105 881
Unrestricted		29 345 045	29 345 045
Total Net Position		<u>43 450 926</u>	<u>43 450 926</u>
Total Liabilities, Deferred Inflows of Resources and Net Position		<u>\$ 35 767 556</u>	<u>\$ 66 531 220</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, 2021**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<u>REVENUES</u>			
Property Tax Revenues	\$ 9 151 661	\$ (2 090 226)	\$ 7 061 435
Sales Tax Revenues	8 989 101	-	8 989 101
Penalty and Interest Revenues	83 971	-	83 971
Interest on Temporary Investments	3 853	-	3 853
Rental and Lease Income	8 419	-	8 419
Miscellaneous Income	<u>68 322</u>	<u>-</u>	<u>68 322</u>
Total Revenues	<u>18 305 327</u>	<u>(2 090 226)</u>	<u>16 215 101</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses			
Apparatus Equipment	127 665	-	127 665
Appraisal District Fees	53 455	-	53 455
Collection Fees	98 983	-	98 983
Dispatch Services	270 946	-	270 946
District Miscellaneous Expenses	7 309	-	7 309
Election Expense	17 689	-	17 689
Emergency Services	4 750 000	-	4 750 000
Firefighting Gear, Tools, and Equipment	256 776	-	256 776
Insurance	172 442	-	172 442
Information Technology and Communications	162 310	-	162 310
Office Expense	48 258	-	48 258
Payroll and Related Expense	821 966	-	821 966
Professional Services	791 030	-	791 030
Rents and Leases	85 686	-	85 686
Signal pre-emption	120 971	-	120 971
Station and Facility Repairs and Maintenance	857 563	-	857 563
Supplies and General Storage	66 155	-	66 155
Utilities	208 696	-	208 696
Capital Outlay	11 700 522	(11 700 522)	-
Debt Service			
Note Principal	2 351 657	(2 351 657)	-
Note Interest	496 292	-	496 292
Depreciation	<u>-</u>	<u>2 414 508</u>	<u>2 414 508</u>
Total Expenditures/Expenses	<u>23 466 371</u>	<u>(11 637 671)</u>	<u>11 828 700</u>
Excess(Deficiency) of Revenues over Expenses before other items	(5 161 044)	9 547 445	
Note Proceeds	<u>4 100 000</u>	<u>(4 100 000)</u>	<u>-</u>
Excess(Deficiency) of Revenues over Expenses	(1 061 044)	5 447 445	
Change in Net Position			4 386 401
Fund Balance/Net Position			
Beginning of Year	<u>26 299 937</u>	<u>12 764 588</u>	<u>39 064 525</u>
End of Year	<u>\$ 25 238 893</u>	<u>\$ 18 212 033</u>	<u>\$ 43 450 926</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, 2021

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, 2021 (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, 2021. 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, 2021
(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, 2021	\$ 25 238 893
Capital assets used in governmental activities are not financial and are not reported in the funds	35 767 556
Long term debt obligations are not reported in the funds	(21 661 675)
Conversion of property tax assessments to full accrual basis	<u>4 106 152</u>
Total Net Position at December 31, 2021	<u>\$ 43 450 926</u>

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

Change in fund balance	\$ (1 061 044)
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 exceeded depreciation and conveyance of capital assets in the current period.	9 286 014
Principal payments on debt are reported as expenditures in the funds. However, they do not affect net position.	2 351 657
Conversion of property tax assessments to full accrual basis	<u>(2 090 226)</u>
Change in net position of governmental activities	<u>\$ 4 386 401</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(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, 2021, \$4,750,000 was paid to the Department. Separate audited financial statements of Klein Volunteer Fire Department are available as of December 31, 2021.

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, 2021, the District earned \$8,989,101 in sales tax revenue.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 (Continued)

NOTE (4) AD VALOREM TAX

During the year ended December 31, 2021, the District levied an ad valorem tax at the rate of \$.05 per \$100 of assessed valuation, which resulted in a tax levy of \$7,685,456 on the taxable valuation of \$15,370,912,491 for the 2021 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, 2021, include collections during the current period or within 60 days of year-end related to the 2021 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 \$19,643,927, which occurred in January 2021.

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, 2021, 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 \$12,327,370 at December 31, 2021.

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, 2021.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

NOTE (6) INTERLOCAL AGREEMENTS

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>
2022	\$ 8 419
2023	8 419
2024	8 419
2025	8 419
Thereafter	<u>44 901</u>
Total	<u>\$ 78 577</u>

On June 1, 2021, the District entered into an agreement with several local districts to provide for the construction and operation of a joint, integrated, emergency communications system to serve the participating districts and potentially other emergency service providers. The administrative body created and established by this agreement is called Texas Emergency Communications Center, Inc. (TECC). Each participating district was required to remit \$300,000 (20%) by July 1, 2021 to establish an operating account for the TECC. This amount is included as an investment in TECC on the Statement of Financial Position and Governmental Funds Balance Sheet. Operation and maintenance of TECC shall be allocated to the participating districts on the based on the size of the district based on square mileage, call volume where the district is a direct provider, and call volume where the district is not a direct provider. During the year ended December 31, 2021, the District paid TECC \$169,904 for dispatch services. In addition, the District incurred \$331,139 in expenses related to the construction of the dispatch facility that are receivable from TECC at December 31, 2021.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

NOTE (7) CHANGES IN CAPITAL ASSETS

The changes in the capital assets are as follows:

	Beginning of Year	Acquisitions (Disposals)	Depreciation Expense	End of Year
Land	\$ 7 451 409	\$ 1 724 245	\$ -	\$ 9 175 654
Buildings	22 331 142	37 000	-	22 368 142
Equipment	22 110 612	2 134 701	-	24 245 313
Less: Accumulated Depreciation	<u>(25 411 621)</u>	<u>-</u>	<u>(2 414 508)</u>	<u>(27 826 129)</u>
Total Net Book Value	<u>19 030 133</u>	<u>2 171 701</u>	<u>(2 414 508)</u>	<u>18 787 326</u>
Construction in Progress	<u>-</u>	<u>7 804 576</u>	<u>-</u>	<u>7 804 576</u>
Totals	<u>\$ 26 481 542</u>	<u>\$ 11 700 522</u>	<u>\$ (2 414 508)</u>	<u>\$ 35 767 556</u>

During the year ended December 31, 2021, the District capitalized land for a new station no. 7, a temporary building, and several vehicles including a tanker and two pumper trucks. Construction in progress at year end includes costs associated with the construction of a new administration complex and renovation of station no. 6.

NOTE (8) NOTES PAYABLE

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, 2021 was \$2,481,000. During the year ended December 31, 2021, the District paid principal and interest of \$397,000 and \$40,919, respectively. The balance due at December 31, 2021 was \$2,084,000.

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, 2021 was \$2,200,332. During the year ended December 31, 2021, the District paid principal and interest of \$531,042 and \$51,779, respectively. The balance due at December 31, 2021 was \$1,669,290.

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, 2021 was \$5,332,000. During the year ended December 31, 2021, the District paid principal and interest of \$608,000 and \$129,806, respectively. The balance due at December 31, 2021 was \$4,724,000.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

(Continued)

NOTE (8) NOTES PAYABLE (Continued)

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. The balance due at January 1, 2021 was \$9,900,000. During the year ended December 31, 2021, the District paid principal and interest of \$572,001 and \$198,756, respectively. The balance due at December 31, 2021 was \$9,327,999.

On January 8, 2021, the District entered into a note with Southside Bank at face value of \$4,100,000 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, 2021, the District paid principal and interest of \$243,614 and \$75,032, respectively. The balance due at December 31, 2021 was \$3,856,386.

Future maturities of the balances outstanding are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2022	\$ 2 389 492
December 31, 2023	2 442 617
December 31, 2024	2 497 408
December 31, 2025	1 970 064
December 31, 2026	2 011 521
December 31, 2027-2031	6 181 443
December 31, 2032-2035	<u>4 169 130</u>
Total Amount	<u>\$21 661 675</u>

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 \$10,601 which is included under payroll and related expense on the statement of activities.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

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, 2021, rent expense was \$77,799 for this lease. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 15 542
Total	<u>\$ 15 542</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, 2021 was \$38,043.

NOTE (11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 9, 2022, (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, 2021**

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
<u>REVENUES</u>			
Property Tax Revenues	\$ 9 151 661	\$ 7 180 594	\$ 1 971 067
Sales Tax Revenues	8 989 101	7 000 000	1 989 101
Penalty and Interest Revenues	83 971	15 000	68 971
Drawdown From Cash Reserves	-	4 944 108	(4 944 108)
Interest on Temporary Investments	3 853	10 000	(6 147)
Rental and Lease Income	8 419	-	8 419
Miscellaneous Income	68 322	8 419	59 903
	<u>18 305 327</u>	<u>19 158 121</u>	<u>(852 794)</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses			
Apparatus Equipment	127 665	52 000	(75 665)
Appraisal District Fees	53 455	50 000	(3 455)
Collection Fees	98 983	-	(98 983)
Dispatch Services	270 946	-	(270 946)
District Miscellaneous Expenses	7 309	1 500	(5 809)
Election Expense	17 689	80 000	62 311
Emergency Services	4 750 000	4 610 000	(140 000)
Firefighting Gear, Tools, and Equipment	256 776	111 120	(145 656)
Insurance	172 442	127 419	(45 023)
Information Technology and Communications	162 310	194 700	32 390
Office Expense	48 258	111 100	62 842
Payroll and Related Expense	821 966	622 000	(199 966)
Professional Services	791 030	282 000	(509 030)
Rents and Leases	85 686	-	(85 686)
Signal pre-emption	120 971	150 000	29 029
Station and Facility Repairs and Maintenance	857 563	534 400	(323 163)
Supplies and General Storage	66 155	41 000	(25 155)
Utilities	208 696	220 100	11 404
Capital Outlay	11 700 522	9 121 000	(2 579 522)
Debt Service			
Note Principal	2 351 657	2 351 657	-
Note Interest	496 292	498 125	1 833
	<u>23 466 371</u>	<u>19 158 121</u>	<u>(4 308 250)</u>
Excess(Deficiency) of Revenues over Expenditures	(5 161 044)	-	(5 161 044)
Note Proceeds	4 100 000	-	4 100 000
Beginning of year	<u>26 299 937</u>	<u>26 299 937</u>	<u>-</u>
End of year	<u>\$ 25 238 893</u>	<u>\$ 26 299 937</u>	<u>\$ (1 061 044)</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, 2021**

Taxes Receivable - Beginning of Year	\$ 6 196 378
2021 Tax Roll	7 685 456
Adjustments to prior year taxes	<u>(624 021)</u>
Total to be Accounted for	<u>13 257 813</u>
Tax Collections Received from Tax Collector	8 742 693
Balance Held by Tax Collector, December 31, 2021	<u>408 968</u>
Total Tax Collections	<u>9 151 661</u>
Taxes Receivable - End of Year	<u><u>\$ 4 106 152</u></u>

Assessed Valuation Summary

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Property Valuations					
Real Property	\$14 792 439 503	\$14 012 566 854	\$ 13 465 627 182	\$13 138 102 666	\$12 774 761 285
Personal Property	<u>578 472 988</u>	<u>842 195 845</u>	<u>628 443 947</u>	<u>677 682 546</u>	<u>596 120 231</u>
Total Property Valuations	<u><u>\$15 370 912 491</u></u>	<u><u>\$14 854 762 699</u></u>	<u><u>\$ 14 094 071 129</u></u>	<u><u>\$13 815 785 212</u></u>	<u><u>\$13 370 881 516</u></u>
Tax Rate per \$100 Valuations	<u>\$ 0.05000</u>	<u>\$ 0.05000</u>	<u>\$ 0.04950</u>	<u>\$ 0.04957</u>	<u>\$ 0.04947</u>
Tax Rolls	<u>\$ 7 685 456</u>	<u>\$ 7 427 381</u>	<u>\$ 6 976 565</u>	<u>\$ 6 848 485</u>	<u>\$ 6 614 575</u>
Percent of Taxes Collected to Taxes Levied	<u>48.6%</u>	<u>99.2%</u>	<u>99.7%</u>	<u>99.8%</u>	<u>99.1%</u>

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**BOARD MEMBERS AND CONSULTANTS
DECEMBER 31, 2021**

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 12/31/21</u>	<u>Expense</u> <u>Reimbursements</u> <u>FYE 12/31/21</u>	<u>Title at</u> <u>Year End</u>
<u>Board Members</u>				
Rich Jones	06/18 - 05/22 (Elected)	\$ 7 159	\$ -	President
Michael Pate	06/20 - 06/24 (Elected)	\$ 7 200	\$ -	Treasurer
Steve Falkner	06/20 - 06/24 (Elected)	\$ -	\$ -	Secretary
Lance Wilson	06/18 - 05/22 (Elected)	\$ -	\$ -	Vice President
Marcus Melvin	06/20 - 05/24 (Elected)	\$ -	\$ -	Assistant Secretary Assistant Treasurer
<u>Consultants</u>				
Breedlove & Co., P.C.		\$ 12 294	\$ -	Auditors
Coveler & Peeler, P.C.		\$ 220 040	\$ 1 428	Legal Counsel
Harris County Appraisal District		\$ 53 455	\$ -	Appraisal District
BD Realty Advisors, LLC		\$ 24 841	\$ -	Real Estate Advisors
Brown, Reynolds & Watford		\$ 350 276	\$ 3 961	Architect
HdL Companies		\$ 82 237	\$ -	Sales Tax Consultant
Government Capital Corporation		\$ 51 250	\$ -	Financial Advisor

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