
HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

Report on Financial Statements
(With Supplemental Material)

For the Year Ended December 31, 2025

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INDEPENDENT AUDITORS' REPORT

June 8, 2026

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, 2025 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, 2025, 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 Auditors' 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, budgetary comparison, and pension schedules on pages 5 through 9 and 26 through 34 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.

Bredlove & Co., P.C.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS DECEMBER 31, 2025

OVERVIEW OF THE FINANCIAL STATEMENTS

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, 2025. Please read it in conjunction with the District’s financial statements, included in 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.

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.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS
DECEMBER 31, 2025
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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.

FINANCIAL SUMMARY

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 \$47,371,133 as of December 31, 2025, as compared to \$55,294,543 at December 31, 2024.

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.

Summary of Net Position

	<u>2025</u>	<u>2024</u>	<u>Change \$</u>	<u>Change %</u>
Current Assets	\$ 27 940 441	\$ 32 354 628	\$ (4 414 187)	(13.64)%
Noncurrent Assets	<u>50 904 705</u>	<u>46 620 023</u>	<u>4 284 682</u>	<u>9.19 %</u>
Total Assets	<u>\$ 78 845 146</u>	<u>\$ 78 974 651</u>	<u>\$ (129 505)</u>	<u>(0.16)%</u>
Deferred Outflows of Resources	<u>\$ 1 013 505</u>	<u>\$ 283 100</u>	<u>\$ 730 405</u>	<u>258.00 %</u>
Current Liabilities	\$ 3 770 215	\$ 3 206 489	\$ 563 726	17.58 %
Long Term Liabilities	<u>18 204 574</u>	<u>20 671 095</u>	<u>(2 466 521)</u>	<u>(11.93)%</u>
Total Liabilities	<u>21 974 789</u>	<u>23 877 584</u>	<u>(1 902 795)</u>	<u>(7.97)%</u>
Deferred Inflows of Resources	<u>10 512 729</u>	<u>85 624</u>	<u>10 427 105</u>	<u>12 177.78 %</u>
Net Position				
Net investment in capital assets	29 212 032	22 838 129	6 373 903	27.91 %
Unrestricted	<u>18 159 101</u>	<u>32 456 414</u>	<u>(14 297 313)</u>	<u>(44.05)%</u>
Total Net Position	<u>47 371 133</u>	<u>55 294 543</u>	<u>(7 923 410)</u>	<u>(14.33)%</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 79 858 651</u>	<u>\$ 79 257 751</u>	<u>\$ 600 900</u>	<u>0.76 %</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2025

(Continued)

FINANCIAL SUMMARY (Continued)

The following table provides a comparison of the District's operations for the years ended December 31, 2025 and December 31, 2024. The District's net position decreased by \$7,923,410 or 14.33%.

	<u>2025</u>	<u>2024</u>	<u>Change \$</u>	<u>Change %</u>
Revenues				
Property Taxes	\$ 9 940 958	\$ 9 808 726	\$ 132 232	1.35 %
Sales Tax Revenues	12 686 621	11 771 425	915 196	7.77 %
Penalty and Interest	199 535	71 236	128 299	180.10 %
Interest on Temporary Investments	896 315	931 665	(35 350)	(3.79)%
Billable Expenditure Revenue	126 611	2 758	123 853	4 490.68 %
Rental and Lease Income	52 838	36 000	16 838	46.77 %
Gain on Disposal of Capital Assets	713 170	578 202	134 968	23.34 %
Miscellaneous Income	<u>416 558</u>	<u>194 288</u>	<u>222 270</u>	<u>114.40 %</u>
Total Revenues	<u>25 032 606</u>	<u>23 394 300</u>	<u>1 638 306</u>	<u>7.00 %</u>
Expenses				
Depreciation and Amortization	3 265 876	2 923 076	342 800	11.73 %
Interest and Fees	622 864	532 390	90 474	16.99 %
Expenses for Services	<u>18 971 796</u>	<u>16 108 463</u>	<u>2 863 333</u>	<u>17.78 %</u>
Total Expenses	<u>22 860 536</u>	<u>19 563 929</u>	<u>3 296 607</u>	<u>16.85 %</u>
Revenues over Expenses	2 172 070	3 830 371	(1 658 301)	(43.29)%
Net Position, Beginning of Year	55 294 543	51 464 172	3 830 371	7.44 %
Prior period adjustment	<u>(10 095 480)</u>	<u>-</u>	<u>(10 095 480)</u>	<u>(100.00)%</u>
Net Position, End of Year - restated	<u>\$ 47 371 133</u>	<u>\$ 55 294 543</u>	<u>\$ (7 923 410)</u>	<u>(14.33)%</u>

DETAILED ANALYSES

The District's current assets decreased \$4,414,187. This decrease was largely due to the decrease in cash due to the Station 1 project. This decrease was slightly offset by increases to sales tax receivable and penalties and interest receivable.

Current liabilities increased by \$563,726 or 17.58%. This was primarily due to the recording of accrued compensated absences and retainage payable.

The District's total net position was \$47,371,133. Of the total net position, \$18,159,101 was unrestricted and may be used to meet the District's ongoing emergency service operations. The total net position decreased by \$7,923,410 from prior fiscal year, or 14.33%.

The Statement of Activities presents the operating results of the District. The net position of these funds decreased by \$7,923,410, or by 14.33% from those of fiscal year 2024. In the narrative that follows, the detailed factors causing changes are discussed:

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS

DECEMBER 31, 2025

(Continued)

DETAILED ANALYSES (Continued)

- Property taxes increased by \$132,232 from that of prior fiscal year because both real property and personal property valuations increased from the prior fiscal year.
- Sales tax revenue increased by \$915,196. This represents an increase of 7.77% of prior fiscal years sales tax revenue due to increased retail sales in the District.
- Miscellaneous income increased by \$222,270 primarily due to receipt of a grant from FEMA as well as a dividend check from Texas Mutual Insurance.
- The gain on disposal of capital assets increased as the result of the sale of a fire truck, as well as the sale of the Kleinwood property.

Compared with the prior fiscal year, total expenses increased \$3,296,607, or 16.85%. This variance is made up of a combination of offsetting factors, as detailed below:

- Depreciation increased by \$332,275. This was largely due to the purchase of assets during the year and 2024 assets purchases that were depreciated for an entire year.
- Interest expense increased by \$90,474. This is due to the 2024 Chase Bank loan paying two interest payments during the year, whereas in the prior year only one interest payment was made.
- Expenses for payroll and related expenses increased almost \$2 million. This increase was largely due to the increase in the hiring of personnel and the increased cost of insurance.

The District's fund balances as of the end of the fiscal years ended December 31, 2025 and December 31, 2024 were \$16,734,079 and \$27,170,009, respectively, a decrease of \$10,435,930 from the prior year.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

MANAGEMENT DISCUSSION & ANALYSIS
DECEMBER 31, 2025
(Continued)

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

Capital Assets

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

	<u>2025</u>	<u>2024</u>	<u>Change \$</u>	<u>Change %</u>
Land	\$ 10 618 030	\$ 10 618 030	\$ -	0.00 %
Buildings	40 661 943	40 542 340	119 603	0.30 %
Equipment and Vehicles	25 405 969	25 590 027	(184 058)	(0.72)%
Construction in Progress	8 967 184	2 026 522	6 940 662	342.49 %
Accumulated Depreciation	<u>(35 395 040)</u>	<u>(32 797 169)</u>	<u>(2 597 871)</u>	<u>7.92 %</u>
Total Capital Assets	<u>\$ 50 258 086</u>	<u>\$ 45 979 750</u>	<u>\$ 4 278 336</u>	<u>9.30 %</u>

Additional information on the District’s capital assets can be found in the notes to the financial statements, per the table of contents.

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2025 are summarized as follows:

Notes Payable, Beginning of Year	\$ 23 079 158
Proceeds	-
Retirement of Principal	<u>(2 408 062)</u>
Notes Payable, End of Year	<u>\$ 20 671 096</u>

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Provision of emergency services (Fire and Emergency Medical Services/EMS Support) is critical but often faces challenges of underfunding. Rural areas, such as the west region covered by the District, tend to be more sparsely populated, and have more limited growth in new taxable property. The District is continuing to experience fast paced residential growth in permanent and predictable taxable property. The District also is subject to (state) constitutional limitations on its property tax rate and collect sales tax to offset ad valorem taxes.

The District, will continue to work within the budget. The District has a long-range planning process to identify capital purchases, make financial resource projections, and analyze potential service configurations. The District held a maximum tax rate election on May 2, 2026. Following the election, the District canvassed the results of the election and the District is now legally authorized to adopt a maximum tax rate of up to \$.10/\$100 assessed valuation. The District will set its tax rate in accordance with the limitations of Texas law in August of 2026.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET DECEMBER 31, 2025

	General Fund	Adjustments	Statement of Net Position
<u>ASSETS</u>			
Cash and Temporary Investments	\$ 15 522 674	\$ -	\$ 15 522 674
Property Taxes Receivable	5 861 094	-	5 861 094
Due From Tax Assessor	3 782 048	-	3 782 048
Accounts Receivable	50 828	-	50 828
Sales Tax Receivable	2 398 963	-	2 398 963
Penalties and Interest on Delinquent Accounts Receivable	-	109 803	109 803
Lease Receivable	-	56 514	56 514
Prepaid Expenses	158 517	-	158 517
Net Pension Asset	-	246 619	246 619
Advance for TECC Operations	400 000	-	400 000
Capital Assets			
Buildings (net of Accumulated Depreciation of \$14,366,900)	-	26 295 043	26 295 043
Equipment (net of Accumulated Depreciation of \$21,028,140)	-	4 377 829	4 377 829
Construction in Progress	-	8 967 184	8 967 184
Land	-	10 618 030	10 618 030
Total Assets	28 174 124	50 671 022	78 845 146
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows of Resources	-	1 013 505	1 013 505
Total Deferred Outflows of Resources	-	1 013 505	1 013 505
Total Assets and Deferred Outflows of Resources	\$ 28 174 124	\$ 51 684 527	\$ 79 858 651
<u>LIABILITIES</u>			
Accounts Payable	\$ 587 911	\$ -	\$ 587 911
Accrued Interest Payable	-	58 385	58 385
Retainage Payable	-	374 958	374 958
TCDRS Payable	97 549	-	97 549
Accrued Compensated Absences	-	184 890	184 890
Long Term Liabilities			
Due within One Year	-	2 466 522	2 466 522
Due after One Year	-	18 204 574	18 204 574
Total Liabilities	685 460	21 289 329	21 974 789
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Tax Revenues	10 718 585	(285 166)	10 433 419
Unearned Revenue	36 000	-	36 000
Deferred Lease Revenues	-	43 310	43 310
Total Deferred Inflows of Resources	10 754 585	(241 856)	10 512 729
<u>FUND BALANCE/NET POSITION</u>			
Fund Balances			
Nonspendable	158 517	(158 517)	-
Unassigned Fund Balance	16 575 562	(16 575 562)	-
Total Fund Balance	16 734 079	(16 734 079)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 28 174 124		
Net Investment in Capital Assets		29 212 032	29 212 032
Unrestricted		18 159 101	18 159 101
Total Net Position		47 371 133	47 371 133
Total Liabilities, Deferred Inflows of Resources and Net Position		\$ 51 684 527	\$ 79 858 651

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, 2025**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<u>REVENUES</u>			
Property Tax Revenues	\$ 9 704 208	\$ 236 750	\$ 9 940 958
Sales Tax Revenues	12 686 621	-	12 686 621
Penalty and Interest Revenues	89 732	109 803	199 535
Interest on Temporary Investments	896 315	-	896 315
Billable Expenditure Revenue	126 611	-	126 611
Rental and Lease Income	52 838	-	52 838
Gain (Loss) on Disposal of Capital Assets	713 170	-	713 170
Miscellaneous Income	<u>416 558</u>	<u>-</u>	<u>416 558</u>
Total Revenues	<u>24 686 053</u>	<u>346 553</u>	<u>25 032 606</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses			
Apparatus Equipment and Maintenance	642 426	-	642 426
Appraisal District Fees	78 305	-	78 305
Collection Fees	73 122	-	73 122
Dispatch Services	691 010	-	691 010
District Miscellaneous Expenses	1 670	-	1 670
Election Expense	89 606	-	89 606
Firefighting Gear, Tools, and Equipment	517 497	-	517 497
Insurance	860 428	-	860 428
Information Technology and Communications	371 778	-	371 778
Office Expense	228 498	-	228 498
Payroll and Related Expense	14 283 773	(608 198)	13 675 575
Professional Services	522 920	-	522 920
Rents and Leases	72 434	-	72 434
Signal Pre-Emption	278 407	-	278 407
Station and Facility Repairs and Maintenance	546 743	-	546 743
Supplies and General Storage	77 520	-	77 520
Utilities	243 857	-	243 857
Capital Outlay	7 245 057	(7 245 057)	-
Debt Service			
Note Principal	2 408 062	(2 408 062)	-
Note Interest	626 942	(4 078)	622 864
Depreciation	-	3 255 351	3 255 351
Amortization of Lease	<u>-</u>	<u>10 525</u>	<u>10 525</u>
Total Expenditures/Expenses	<u>29 860 055</u>	<u>(6 999 519)</u>	<u>22 860 536</u>
Excess(Deficiency) of Revenues over Expenses	<u>(5 174 002)</u>	<u>7 346 072</u>	
Change in Net Position			<u>2 172 070</u>
Fund Balance/Net Position			
Beginning of Year	27 170 009	28 124 534	55 294 543
Prior Period Adjustment	<u>(5 261 928)</u>	<u>(4 833 552)</u>	<u>(10 095 480)</u>
Beginning of Year - Restated	<u>21 908 081</u>	<u>23 290 982</u>	<u>45 199 063</u>
End of Year	<u>\$ 16 734 079</u>	<u>\$ 30 637 054</u>	<u>\$ 47 371 133</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, 2025

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, 2025 (Continued)

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (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 Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In compliance with GASB Statement No. 34, the District has presented a Statement of Net Position and Statement of Activities for the year ended December 31, 2025. 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, 2025

(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. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

H. 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. In addition, architectural and engineering fees associated with construction contracts are 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.

I. 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.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)**

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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, 2025	\$ 16 734 079
Capital assets used in governmental activities are not financial and are not reported in the funds.	50 258 086
Portions of the change in net pension asset are not immediately recognized as pension expense and are recorded as deferred outflows of or inflows of resources.	1 013 505
Certain assets are not available in the current period and, therefore, are not reported as assets in governmental funds. These assets at year-end consist of net pension asset.	246 619
Lease receivables less deferred lease revenues are not receivable in the current period.	13 204
Long term debt obligations are not reported in the funds.	(20 671 096)
Interest paid on long term debt is adjusted to accrual basis.	(58 385)
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. These liabilities at year-end consist of the following:	
Compensated Absences	(184 890)
Retainage Payable	(374 958)
Deferred inflows of resources related to property tax revenues and interest receivable on delinquent taxes for the 2024 and prior tax levies became part of recognized revenue in the governmental activities of the District.	<u>394 969</u>
Adjustment to fund balance to arrive at net position	<u>30 637 054</u>
Total Net Position at December 31, 2025	<u>\$ 47 371 133</u>

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

NOTE (1) SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

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

Change in fund balance	\$ (5 174 002)
------------------------	----------------

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.	3 989 706
--	-----------

Government funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	109 803
---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated Absences	(128 554)
Deferred Outflows - Difference between Expected and Actual experience	101 547
Deferred Outflows - Net difference between Projected and Actual earnings	(23 489)
Deferred Outflows - Contributions made by employer	652 348
Net Pension Asset	6 346

Interest paid on long term debt is adjusted to accrual basis.	4 078
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Amortization of lease not received in the current period.	(10 525)
---	-----------

Principal payments on debt are reported as expenditures in the funds. However, they do not affect net position.	2 408 062
---	-----------

Conversion of property tax assessments to full accrual basis.	<u>236 750</u>
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Change in net position of governmental activities	<u>\$ 2 172 070</u>
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NOTE (2) 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, 2025, the District earned \$12,686,621 in sales tax revenue.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 (Continued)

NOTE (3) AD VALOREM TAX

During the year ended December 31, 2025, the District levied an ad valorem tax at the rate of \$.05 per \$100 of assessed valuation, which resulted in a tax levy of \$10,433,419 on the taxable valuation of \$20,866,838,543 for the 2025 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, 2025, include collections during the current period or within 60 days of year-end related to the 2024 and prior years' tax levies. The 2025 tax levy has been fully deferred.

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

NOTE (4) 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 \$2,366,091, which occurred November 10, 2025.

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, 2025, 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 Hermes, 1001 Texas Ave., 14th Floor, Houston, Texas 77002. The District held investments in TexPool with a total carrying value and market value of \$13,540,461 at December 31, 2025.

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, 2025.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

NOTE (5) INTERLOCAL/LEASE 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. Due to the implementation of GASB Statement No. 87 *Leases*, this lease for the usage of acreage met the criteria of a lease. The deferred lease income was calculated utilizing the incremental borrowing rate of 4.10% at January 1, 2024. 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.

Effective March 1, 2023 the District entered into a lease agreement with Texas Emergency Communications Center, Inc. (TECC). The lease agreement is for lease of District owned building consisting of approximately 7,700 square feet, including the generator, radio antenna tower, relevant easements and parking areas. The building is to be used as a dispatch and communication center. The term is thirty-six months expiring not later than February 28, 2026. Either party may terminate the lease at any time and without cause by providing notice to the other party. Payments are \$3,000 per month. This lease meets the reporting requirements for GASB Statement No. 87, *Leases*. The deferred lease income was calculated utilizing the incremental borrowing rate of 4.10% at January 1, 2024.

Amortization of the deferred lease income of \$10,525 is recorded in the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance.

Future expected lease income is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>
2026	\$ 14 419
2027	8 419
2028	8 419
2029	8 419
2030	8 419
2031	8 419
Total	<u>\$ 56 514</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 TECC. Each participating district was required to remit \$300,000 (20%) by July 1, 2021 to establish an operating account for the TECC. The total amount of \$400,000 is included as an advance for TECC operations 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, 2025, the District paid TECC \$691,010 for dispatch services.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

NOTE (6) CHANGES IN CAPITAL ASSETS

The changes in the capital assets are as follows:

	Beginning Balance <u>12/31/2024</u>	Increases	Decreases	Ending Balance <u>12/31/25</u>
Capital assets not being depreciated:				
Construction in Progress	\$ 2 026 522	\$ 6 940 662	\$ -	\$ 8 967 184
Land	<u>10 618 030</u>	<u>-</u>	<u>-</u>	<u>10 618 030</u>
Total capital assets not being depreciated	<u>12 644 552</u>	<u>6 940 662</u>	<u>-</u>	<u>19 585 214</u>
Capital assets being depreciated:				
Buildings and Improvements	40 542 340	119 603	-	40 661 943
Equipment and Vehicles	<u>25 590 027</u>	<u>473 422</u>	<u>(657 480)</u>	<u>25 405 969</u>
Total capital assets being depreciated	<u>66 132 367</u>	<u>593 025</u>	<u>(657 480)</u>	<u>66 067 912</u>
Less accumulated depreciation for:				
Buildings and Improvements	(12 500 393)	(1 866 507)	-	(14 366 900)
Equipment and Vehicles	<u>(20 296 776)</u>	<u>(1 388 844)</u>	<u>657 480</u>	<u>(21 028 140)</u>
Total accumulated depreciation	<u>(32 797 169)</u>	<u>(3 255 351)</u>	<u>657 480</u>	<u>(35 395 040)</u>
Capital assets, net	<u>\$ 45 979 750</u>	<u>\$ 4 278 336</u>	<u>\$ -</u>	<u>\$ 50 258 086</u>

During the year ended December 31, 2025, the District capitalized a vehicle, equipment for the new complex, and also disposed of a fire truck and a scissor lift. Construction in progress at year end includes costs associated with the construction costs for the new Station 1 and the Gregson Tower project.

NOTE (7) 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, 2024 was \$854,000. During the year ended December 31, 2025, the District paid principal and interest of \$424,000 and \$14,091, respectively. The balance due at December 31, 2025 was \$430,000.

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, 2025 was \$2,803,000. During the year ended December 31, 2025, the District paid principal and interest of \$674,000 and \$63,771, respectively. The balance due at December 31, 2025 was \$2,129,000.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

NOTE (7) 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 used the proceeds of the note for construction of a new administration and maintenance building. Principal and interest payments are due quarterly beginning March 1, 2021. The balance due at January 1, 2025 was \$7,552,714. During the year ended December 31, 2025, the District paid principal and interest of \$616,987 and \$153,770, respectively. The balance due at December 31, 2024 was \$6,935,727.

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 structure. Principal and interest payments are due quarterly beginning March 1, 2021. The balance due at January 1, 2025 was \$3,122,444. During the year ended December 31, 2025, the District paid principal and interest of \$255,075 and \$63,571, respectively. The balance due at December 31, 2025 was \$2,867,369.

On May 30, 2024, the District entered into a note with JPMorgan Chase Bank at face value of \$8,747,000 bearing an interest rate of 3.89%. 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. One principal and two interest payments are due annually beginning May 30, 2025 with the first interest payment due November 30, 2024. During the year ended December 31, 2025, the District paid principal and interest of \$438,000 and \$331,739, respectively. The balance due at December 31, 2025 was \$8,309,000.

Future maturities of the balances outstanding are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
December 31, 2026	\$ 2 466 522	\$ 566 468
December 31, 2027	2 092 370	504 362
December 31, 2028	2 148 618	447 752
December 31, 2029	1 460 272	399 156
December 31, 2030	1 500 344	338 299
December 31, 2031-2035	8 151 970	1 143 794
December 31, 2036-2039	<u>2 851 000</u>	<u>227 195</u>
Total Amount	<u>\$ 20 671 096</u>	<u>\$ 3 627 026</u>

NOTE (8) 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. All distributions from plan are subject to the minimum distribution requirements of Internal Revenue Code Section 401(a)(9). The District terminated its matching to the plan in 2024, and as a result, all contributions to the plan are employee contributions.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

NOTE (9) LEASE COMMITMENTS

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, 2025 was \$28,502.

The District leases tower and antenna equipment on a month-to-month basis. Total rent for the tower for the year ended December 31, 2025 was \$11,688.

NOTE (10) RETIREMENT PLAN

Plan Description

During the year ended December 31, 2022 the District began contributing to the Texas County & District Retirement System (the “Plan”) which is a statewide, agent multiple-employer, public employee retirement system. All full- and part-time non-temporary employees participate in the Plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The plan provides retirement, disability and survivor benefits.

Note that retirement plan information disclosed in this audit report was based on the GASB Statement No. 68 Report for the Plan furnished by Milliman to the District for the year ended December 31, 2024. This is due to the delayed issuance of Milliman annual evaluation.

Employee membership data related to the Plan, as of December 31, 2024 was as follows:

Inactive employees entitled to but not yet receiving benefits	43
Active plan members	<u>202</u>
	<u>245</u>

The Plan is a savings-based plan. For the District plan, 5% of each employee’s pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 200%) and is then converted to a lifetime annuity.

For the year ended December 31, 2024, the District’s total payroll for all employees was \$9,844,354. Total covered payroll was \$9,604,595, based on TCDRS December 31, 2024 evaluation. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan and was calculated by the actuary based on contributions as reported to the Plan.

Contributions

Employees of the District are required to contribute 5% of covered compensation to the Plan. The contributions are deducted from the employee’s wages or salary and remitted by the District to the Plan on a monthly basis. The District’s contractually required contribution rate for the year ended December 31, 2024, was 6.0% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District’s contributions to the Plan for the year ended December 31, 2024 were \$573,394.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

NOTE (10) RETIREMENT PLAN (Continued)

Pension Assets, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At December 31, 2025, the District reported an asset of \$246,619 for its proportionate share of the net pension asset. This amount is due to the plan allowing for past service years of key employees of the District to be used toward those employee’s total service years requirement.

For the year ended December 31, 2025, the District recognized pension expense of 652,348. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual results	\$ -	\$ 350 569
Changes of assumptions	-	-
Net difference between projected and actual earnings	-	10 588
Contributions subsequent to the measurement date	N/A	652 348
Total	<u>\$ -</u>	<u>\$ 1 013 505</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2025	\$ 47 868
2026	47 867
2027	44 467
2028	38 498
2029	42 028
Thereafter	140 429

Actuarial Assumptions

The total pension liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Varies by age and service. 4.7% average over career including inflation.
Investment rate of return	7.50%, net of administrative and investment expenses, including inflation.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2025

(Continued)

NOTE (10) RETIREMENT PLAN (Continued)

In the 2024 actuarial valuation, assumed life expectancies were 135% of the Pub 2010 General Retirees Table of males and 120% of the Pub 2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

The actuarial assumptions used in the December 31, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2017 - December 31, 2020, except where required to be different by GASB Statement No. 68.

The long term expected rate of return on pension plan investments was determined by adding expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by the Plan's investment consultant, Cliffwater, LLC. The numbers shown are based on January 2025 information for a 10 year period.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected Minus Inflation)
US Equities	13.00%	5.35%
Global Equities	4.00%	5.15%
International Equities - Developed	6.00%	4.75%
International Equities - Emerging	0.00%	4.75%
Investment - Grade Bonds	3.00%	2.55%
Strategic Credit	9.00%	3.70%
Direct Lending	16.00%	6.85%
Distressed Debt	4.00%	6.80%
REIT Equities	2.00%	3.95%
Master Limited Partnerships	2.00%	4.95%
Commodities	2.00%	1.00%
Private Real Estate Partnerships	6.00%	5.75%
Private Equity	25.00%	8.15%
Hedge Funds	6.00%	3.60%
Cash Equivalent	2.00 %	1.10%
	<u>100.00 %</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active, inactive, and retired employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

NOTE (10) RETIREMENT PLAN (Continued)

Changes in District's Net Pension Liability/(Asset)

Changes in the District's net pension liability/(asset) for the year ended December 31, 2024 was as follows:

	Increase/(Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balances as of December 31, 2023	\$ 1 168 447	\$ 1 408 720	\$ (240 273)
Changes for the year:			
Service cost	964 025	-	964 025
Interest on total pension liability	161 607	-	161 607
Effect of Plan changes	-	-	-
Effect of economic/demographic gains or losses	143 575	-	143 575
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(12 346)	(12 346)	-
Benefit payments	-	-	-
Administrative expenses	-	(1 454)	1 454
Member contributions	-	480 230	(480 230)
Net investment income	-	165 656	(165 656)
Employer contributions	-	573 393	(573 393)
Other	-	57 728	(57 728)
Balances as of December 31, 2024	\$ 2 425 308	\$ 2 671 927	\$ (246 619)

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2025
 (Continued)

NOTE (10) RETIREMENT PLAN (Continued)

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s net pension liability calculated using the discount rate of 7.60%, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

	Discount Rate	Net Pension Liability/(Asset)
1% Decrease	6.60%	\$ 311 101
Current Discount Rate	7.60%	\$ (246 619)
1% Increase	8.60%	\$ (685 749)

Plan Fiduciary Net Position

Detailed information about the Plan’s fiduciary net position is available in the separately issued Plan financial report.

Payable to the Plan

At December 31, 2025, the District reported a payable of \$97,549 for the outstanding amount of contributions due to the Plan.

NOTE (11) PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2025, a prior period adjustment was made to align property tax assessments made in October each year with the subsequent year expenses. The property tax assessment levied in October 2024 is being recognized as property tax revenue in 2025, and the property tax assessment levied in 2025 is recorded as unavailable tax revenue to be recognized in 2026. This one-time adjustment of \$10,095,480 aligns the revenues with the budgeted expenses for each year and is considered a timing difference.

NOTE (12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 8, 2026, (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, 2025**

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
<u>REVENUES</u>			
Property Tax Revenues	\$ 9 704 208	\$ 10 100 000	\$ (395 792)
Sales Tax Revenues	12 686 621	10 750 000	1 936 621
Penalty and Interest Revenues	89 732	-	89 732
Interest on Temporary Investments	896 315	500 000	396 315
Billable Expenditure Revenue	126 611	-	126 611
Rental and Lease Income	52 838	-	52 838
Gain on Disposal of Capital Assets	713 170	-	713 170
Miscellaneous Income	<u>416 558</u>	<u>44 700</u>	<u>371 858</u>
Total Revenues	<u>24 686 053</u>	<u>21 394 700</u>	<u>3 291 353</u>
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses			
Administration and Headquarters			
Postage	933	7 500	6 567
Office Uniforms	8 609	15 000	6 391
Copy Machine	8 621	8 400	(221)
Office Supplies	4 366	30 000	25 634
Janitorial Services	32 244	29 504	(2 740)
Network Expenses and IT	161 492	177 900	16 408
Meeting and Travel Expense	36 309	65 000	28 691
Donations - Volunteer Fire Department	1 000	-	(1 000)
Community Outreach	135 829	144 456	8 627
Software Expenses	<u>33 832</u>	<u>57 000</u>	<u>23 168</u>
Total Administration and Headquarters	<u>423 235</u>	<u>534 760</u>	<u>111 525</u>
Apparatus Equipment	<u>289 049</u>	<u>446 500</u>	<u>157 451</u>
Communications			
Batteries	321	800	479
HT/Radios	101 702	7 500	(94 202)
Repeater Maintenance	-	3 500	3 500
Tower Rental	11 688	12 000	312
Dispatch Services	691 010	700 000	8 990
Data Modems	<u>108 261</u>	<u>154 800</u>	<u>46 539</u>
Total Communications	<u>912 982</u>	<u>878 600</u>	<u>(34 382)</u>
Firefighting Personal Protection Equipment	<u>305 763</u>	<u>505 000</u>	<u>199 237</u>
Insurance			
Property	248 987	228 954	(20 033)
Bond Insurance Errors and Omissions	33 699	-	(33 699)
General Liability	4 611	8 000	3 389
Management Liability	16 464	16 000	(464)
Umbrella Liability	17 360	17 000	(360)
Accident and Sickness	38 149	39 000	851
Workmens Compensation	423 528	415 000	(8 528)
Vehicle	<u>77 630</u>	<u>100 000</u>	<u>22 370</u>
Total Insurance	<u>860 428</u>	<u>823 954</u>	<u>(36 474)</u>

See Independent Auditors' Report.

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, 2025
(Continued)

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
Legal and Professional Services			
Legal	152 188	135 000	(17 188)
Real Estate and Surveying	5 244	21 000	15 756
Third Party Audit	20 797	20 000	(797)
Dues and Subscriptions	29 013	12 725	(16 288)
Elections	89 606	335 000	245 394
Collection Fees	73 122	-	(73 122)
Sales Tax Assurance	92 856	15 000	(77 856)
Appraisal District Fees	78 305	80 000	1 695
Legislative Services	55 000	100 000	45 000
Physical Exams and Other Testing	23 303	43 350	20 047
Health and Wellness	42 700	110 000	67 300
Delinquent Tax Attorney	23 112	-	(23 112)
Engineering	78 706	-	(78 706)
Total Legal and Professional	<u>763 952</u>	<u>872 075</u>	<u>108 123</u>
Maintenance and Repairs	<u>199 042</u>	<u>229 700</u>	<u>30 658</u>
Operations			
Key Maps/Preplans	24 340	25 000	660
Fire Extinguishers	2 982	5 000	2 018
Uniforms	130 644	209 000	78 356
Water and Gatorade	14 689	15 000	311
Rehab Supplies	1 821	1 500	(321)
Valor Awards	1 441	10 000	8 559
Total Operations	<u>175 917</u>	<u>265 500</u>	<u>89 583</u>
Payroll			
Administrative	10 247 045	10 761 203	514 158
Taxes	786 051	2 950 000	2 163 949
Medical Insurance	2 124 883	1 021 900	(1 102 983)
Volunteer Stipend	180 348	280 000	99 652
Service Fee	84 214	75 000	(9 214)
Dental, Life, Disability	187 152	186 500	(652)
Health Savings Account	8 968	9 100	132
Deferred Compensation Plan	-	65 000	65 000
Commissioner Compensation	12 170	18 000	5 830
Commissioner Expense Reimbursement	593	6 000	5 407
TCDRS	652 349	975 334	322 985
Total Payroll	<u>14 283 773</u>	<u>16 348 037</u>	<u>2 064 264</u>

See Independent Auditors' Report.

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, 2025
(Continued)

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
Station Expenses			
Lawn Service	98 931	95 000	(3 931)
Pest Control	28 992	34 000	5 008
Station Consumables and Tools	62 831	60 000	(2 831)
Trash Services	30 325	28 050	(2 275)
Modular	28 502	28 200	(302)
Other Land Maintenance	326 817	353 600	26 783
Annual Building Inspection & Certification	35 140	53 500	18 360
Station 1 Utilities	15 915	19 600	3 685
Station 2 Utilities	17 469	24 500	7 031
Station 3 Utilities	21 574	39 500	17 926
Station 4 Utilities	36 306	65 000	28 694
Station 5 Utilities	15 761	35 000	19 239
Station 6 Utilities	25 083	40 000	14 917
Station 7 Utilities	17 320	27 100	9 780
Station 8 Utilities	24 843	35 000	10 157
Annex Utilities	11 169	25 000	13 831
Training Utilities	6 044	8 900	2 856
Admin Complex Utilities	45 956	90 000	44 044
Shop Utilities	6 417	25 000	18 583
Total Station Expenses	<u>855 395</u>	<u>1 086 950</u>	<u>231 555</u>

See Independent Auditors' Report.

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, 2025
(Continued)

	<u>Actual</u>	<u>Original and Final Budget*</u>	<u>Variance Positive (Negative)</u>
Training			
Instructional	69 306	84 500	15 194
Recruit Academy	7 780	20 000	12 220
Travel & Per Diem	670	-	(670)
Travel Expenses	<u>1 021</u>	<u>15 000</u>	<u>13 979</u>
Total Training	<u>78 777</u>	<u>119 500</u>	<u>40 723</u>
Capital Expenditures			
Support Vehicles	77 722	195 000	117 278
Miscellaneous Capital	23 279	125 000	101 721
Apparatus Equipment	52 272	351 000	298 728
Gregson Radio Tower	-	679 800	679 800
Bay Foundation: Station 4	-	400 000	400 000
Station Alerting	-	90 000	90 000
Signal Pre-emption	278 407	140 000	(138 407)
Capital Outlay	<u>7 245 057</u>	<u>-</u>	<u>(7 245 057)</u>
Total Capital Expenditures	<u>7 676 737</u>	<u>1 980 800</u>	<u>(5 695 937)</u>
Debt Service			
Note Principal	2 408 062	2 408 063	1
Note Interest	<u>626 942</u>	<u>626 942</u>	<u>-</u>
Total Debt Service	<u>3 035 004</u>	<u>3 035 005</u>	<u>1</u>
Total Expenditures/Expenses	<u>29 860 054</u>	<u>27 126 381</u>	<u>(2 733 673)</u>
Excess(Deficiency) of Revenues over Expenditures	<u>\$ (5 174 001)</u>	<u>\$ (5 731 681)</u>	<u>\$ 557 680</u>

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

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND
ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2025**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY INFORMATION**

Significant variances between actual results compared to budgetary appropriations include the following:

Property tax revenues were less than expected due to a decrease in taxes collected prior to year end. The timing of property tax payments by the taxpayers is out of the District's control.

Sales tax revenue was greater than expected due to continued resident and business growth in the District, resulting in an increase in retail spending.

Interest income is difficult to budget for as the income depends on the performance of the market. The District had more cash on hand during the year generating more interest income than expected.

Payroll and related expenses, including staff training, are budgeted for based on the premise that the District and all its operating stations would be fully staffed throughout the year. Medical insurance costs also saw a large variance due to an overall increase in rates, additional hiring of personnel, as well as the District beginning to provide medical to part-time employees.

Capital outlay expenses are difficult to project. While the District has a good idea about the estimated amount they will spend on large capital items, they cannot predict the timing of the projects, payment schedules, or their completion. The variance in capital outlay is primarily the result of the timing of the work being done on the Station 1 project. The majority of the budget was in 2024 when the debt was incurred for the construction.

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HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS

	Year Ended December 31			
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total Pension Liability				
Service cost	\$ 964 025	\$ 523 198	\$ 122 007	N/A
Interest on total pension liability	161 607	49 650	9 273	N/A
Effect of plan changes	-	190 217	-	N/A
Effect of assumption changes or inputs	-	-	-	N/A
Effect of economic/demographic (gains) or losses	143 575	276 614	87	N/A
Benefit payments/refunds of contributions	<u>(12 346)</u>	<u>(2 599)</u>	<u>-</u>	<u>N/A</u>
Net change in total pension liability	1 256 861	1 037 080	131 367	N/A
Total pension liability, beginning	<u>1 168 447</u>	<u>131 367</u>	<u>-</u>	<u>N/A</u>
Total pension liability, ending	<u>2 425 308</u>	<u>1 168 447</u>	<u>131 367</u>	<u>N/A</u>
 Fiduciary Net Position				
Employer contributions	573 393	774 543	61 007	N/A
Member contributions	480 230	410 688	72 113	N/A
Investment income net of investment expenses	165 656	27 135	(11 352)	N/A
Benefit payments/refunds of contributions	(12 346)	(2 599)	-	N/A
Administrative expenses	(1 454)	(736)	(82)	N/A
Other	<u>57 728</u>	<u>59 261</u>	<u>18 742</u>	<u>N/A</u>
Net change in fiduciary net position	1 263 207	1 268 292	140 428	N/A
Fiduciary net position, beginning	<u>1 408 720</u>	<u>140 428</u>	<u>-</u>	<u>N/A</u>
Fiduciary net position, ending	<u>2 671 927</u>	<u>1 408 720</u>	<u>140 428</u>	<u>N/A</u>
 Net pension liability/(asset), ending	<u>\$ (246 619)</u>	<u>\$ (240 273)</u>	<u>\$ (9 061)</u>	<u>N/A</u>
 Fiduciary net position as a % of total pension liability/(asset)	110.17%	120.56%	106.90%	N/A
 Pensionable covered payroll	\$ 9 604 595	\$ 8 213 755	\$ 1 442 255	N/A
 Net pension liability/(asset) as a % of covered payroll	-2.57%	-2.93%	-0.63%	N/A

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2022	\$ 61 007	\$ 61 007	\$ -	\$ 1 442 255	4.23%
2023	347 442	774 543	(427 101)	8 213 755	9.43%
2024	573 394	573 394	-	9 604 595	6.00%

NOTE (1) VALUATION DATE

Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

NOTE (2) METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	15.2 years (based on contribution rate calculated in 12/31/24 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career including inflation.
Investment Rate of Return	7.5%, net of administrative and investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in Assumptions and Methods Reflected in the Schedule	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected. 2022: New investment return and inflation assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2022: No changes in plan provisions were reflected in the Schedule. 2023: No changes in plan provisions were reflected in the Schedule. 2024: Employer contributions reflect that the current service matching rate was increased to 200% for future benefits.

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

SUPPLEMENTARY INFORMATION

ANALYSIS OF TAXES RECEIVABLE
DECEMBER 31, 2025

Taxes Receivable - Beginning of Year	\$ 5 286 405
2025 Tax Roll	10 433 419
Adjustments to prior year taxes	<u>(154 522)</u>
Total to be Accounted for	<u>15 565 302</u>
Tax Collections Received from Tax Collector	5 922 160
Balance Held by Tax Collector, December 31, 2025	<u>3 782 048</u>
Total Tax Collections	<u>9 704 208</u>
Taxes Receivable - End of Year	<u>\$ 5 861 094</u>

Assessed Valuation Summary

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Property Valuations					
Real Property	\$20 126 557 742	\$ 19 511 204 321	\$ 18 811 329 752	\$16 841 828 326	\$ 14 792 439 503
Personal Property	<u>740 280 801</u>	<u>727 925 660</u>	<u>753 850 630</u>	<u>693 034 405</u>	<u>578 472 988</u>
Total Property Valuations	<u>\$20 866 838 543</u>	<u>\$ 20 239 129 981</u>	<u>\$ 19 565 180 382</u>	<u>\$17 534 862 731</u>	<u>\$ 15 370 912 491</u>
Tax Rate per \$100 Valuations	<u>\$ 0.050000</u>	<u>\$ 0.049881</u>	<u>\$ 0.045097</u>	<u>\$ 0.047107</u>	<u>\$ 0.050000</u>
Tax Rolls	<u>\$ 10 433 419</u>	<u>\$ 10 095 480</u>	<u>\$ 8 823 309</u>	<u>\$ 8 260 148</u>	<u>\$ 7 685 456</u>
Percent of Taxes Collected to Taxes Levied	<u>46.6%</u>	<u>99.0%</u>	<u>99.2%</u>	<u>99.7%</u>	<u>99.7%</u>

See Independent Auditors' Report.

HARRIS COUNTY EMERGENCY SERVICES DISTRICT NO. 16

**BOARD MEMBERS AND CONSULTANTS
DECEMBER 31, 2025**

<u>Names</u>	<u>Term of Office</u>	<u>Fees Paid *</u> <u>FYE 12/31/25</u>	<u>Expense</u> <u>Reimbursements</u> <u>FYE 12/31/25</u>	<u>Title at</u> <u>Year End</u>
<u>Board Members</u>				
Lance Wilson	06/22 - 05/26 (Elected)	\$ 2 660	\$ -	President
Brian Gillman	04/25 - 05/28 (Appointed)	\$ 1 547	\$ -	Treasurer
Gary Morrison	06/24 - 05/28 (Elected)	\$ 1 800	\$ -	Secretary
Anna Vollenweider	06/22 - 05/26 (Elected)	\$ 4 144	\$ 312	Vice President
Steve Falkner	06/24 - 05/28 (Elected)	\$ -	\$ -	Assistant Secretary
Michael Pate	06/24 - 04/25 (Elected)	\$ 3 000	\$ 282	-
<u>Consultants</u>				
Breedlove & Co., P.C.		\$ 20 797	\$ -	Auditors
Coveler & Peeler, P.C.		\$ 137 275	\$ 14 913	Legal Counsel
Harris Central Appraisal District		\$ 78 305	\$ -	Appraisal District
BD Realty Advisors, LLC		\$ 1 213	\$ -	Real Estate Advisors
Municipal Information Services		\$ 3 439	\$ -	Real Estate Advisors
Brown, Reynolds & Watford		\$ 105 650	\$ -	Architect
HdL Companies		\$ 92 856	\$ -	Sales Tax Consultant
URSA Dynamics LLC		\$ 49 500	\$ -	Public Relations

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